

THE VICE PRESIDENT'S NATIONAL  
PERFORMANCE REVIEW—RECOMMENDING  
A BIENNIAL BUDGET PROCESS

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Y 4. G 74/7: B 85/18

The Vice President's National Perfo...

HEARING  
BEFORE THE  
LEGISLATION AND NATIONAL  
SECURITY SUBCOMMITTEE  
OF THE  
COMMITTEE ON  
GOVERNMENT OPERATIONS  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED THIRD CONGRESS  
FIRST SESSION

OCTOBER 7, 1993

Printed for the use of the Committee on Government Operations



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# CONTENTS

---

	Page
Hearing held on October 7, 1993 .....	1
Statement of:	
Conyers, Hon. John, Jr., a Representative in Congress from the State of Michigan, and chairman, Legislation and National Security Sub- committee: Opening statement .....	1
Irving, Susan, Associate Director, Budget Issues, General Accounting Of- fice .....	51
Mann, Thomas E., the Brookings Institution .....	68
Orton, Hon. Bill, a Representative in Congress from the State of Utah .....	28
Panetta, Leon E., Director, Office of Management and Budget .....	6
Reischauer, Robert D., Director, Congressional Budget Office .....	31
Snell, Robert K., director, fiscal affairs programs, National Conference of State Legislatures .....	79
Letters, statements, etc., submitted for the record by:	
Irving, Susan, Associate Director, Budget Issues, General Accounting Of- fice: Prepared statement .....	52
Mann, Thomas E., the Brookings Institution: Prepared statement .....	72
McCandless, Hon. Al, a Representative in Congress from the State of California: Prepared statement .....	4
Panetta, Leon E., Director, Office of Management and Budget: Prepared statement .....	12
Reischauer, Robert D., Director, Congressional Budget Office: Prepared statement .....	35
Snell, Robert K., director, fiscal affairs programs, National Conference of State Legislatures: Prepared statement .....	82

## APPENDIX

Material submitted for the hearing record .....	93
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(III)



# THE VICE PRESIDENT'S NATIONAL PERFORMANCE REVIEW—RECOMMENDING A BIENNIAL BUDGET PROCESS

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THURSDAY, OCTOBER 7, 1993

HOUSE OF REPRESENTATIVES,  
LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE  
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10:15 a.m., in room 2154, Rayburn House Office Building, Hon. John Conyers, Jr. (chairman of the subcommittee) presiding.

Members present: Representatives John Conyers, Jr., John M. Spratt, Jr., William F. Clinger, Jr., and Jon L. Kyl.

Full committee staff present: Julian Epstein, staff director; Kevin Cronin, associate counsel; and Mechita O. Crawford, clerk.

Subcommittee staff present: James C. Turner, staff director; Kevin Sabo, minority counsel; and Monty Tripp, minority professional staff.

## OPENING STATEMENT OF CHAIRMAN CONYERS

Mr. CONYERS. Good morning, ladies and gentlemen, we are delighted to conduct this oversight hearing on the Vice President's National Performance Review and the biennial budget proposal. The Legislation and National Security Subcommittee is meeting to examine the Vice President's recommendations, particularly with reference to the 2-year budgeting proposal.

Under the Rules of the House, this committee has jurisdiction for budget process reform. The committee has been aggressive in exercising its budgetary responsibilities, including legislation to extend the Budget Enforcement Act, enhanced rescission and entitlement and revenue review.

While budget reform is a responsibility that we all take seriously, it is not a substitute for the harder policy choices that we must make to reduce the deficit and increase the government's performs.

The massive public debt built by the policies of the last decade will only be solved when we confront some tough policy decisions, including how to control health care costs. We are delighted to have the Director of the Office of Management and Budget, the Honorable Leon Panetta, our former colleague, with us today.

Budget process reform is important as we begin the task of better disciplining the Federal Government to do more with less, to deliver more services with less waste, less red tape, and to make government more responsive to the needs of the public.



We meet this morning to share some views with our Director of OMB. The biennial budget proposal raises some tough questions. Should we, and if so, how would we go about moving from the single year to a 2-year budget process? I am delighted to welcome Mr. Leon Panetta and would ask Bill Clinger if he wanted to make any opening remarks.

Mr. CLINGER. Thank you, Mr. Chairman. And I too want to thank you, thank the Director, Mr. Panetta, for being with us and thank you for calling this hearing to kick off this committee's evaluation of the National Performance Review's recommendation.

As with Mr. McCandless, who I am sitting in for this morning, I have generally supported efforts to place the government's budget appropriation process on the 2-year cycle. Congress spends far too much time debating spending proposals and far too little time looking at how well that money is spent.

Any proposal to shift our attention away from yearly budget debates, which are endless, and toward program performance, I think, is a good idea. I want to welcome Director Panetta.

Mr. PANETTA. I will respond to either name.

Mr. CLINGER. We have seen Mr. Panetta before our subcommittee several times this year already, and I have always considered it a very good sign that he is so committed to these management and budget process issues.

I do not want to suggest, however, that I am not somewhat frustrated with the slow pace that we have seen the administration promote their own National Performance Review recommendations.

After the NPR recommendations were released to the public, I had the honor to deliver the Republican response to the President's weekly radio address. The topic was the National Performance Review. Speaking on behalf of the Republican party, I stated that President Clinton and Vice President Gore can look to congressional Republicans as partners in their effort to streamline the Federal Government. While some Democratic committee chairs were voicing their outright opposition to some of the NPR recommendations, I think most Republicans, it is fair to say, have stood ready to implement the NPR package.

That is why I want to thank you, Mr. Chairman, for the meeting we held yesterday to discuss implementation plans and the very ambitious schedule of hearings that we have posed for this committee to deal with the many suggestions contained in the NPR package. I am looking forward to those hearings.

I am frustrated, however, with the speed with which the administration has sought to get their ideas enacted. In that radio comment that I made, I challenged the President to submit a legislative package to Congress within 30 days. Of course it was sort of a one-sided challenge, but on Monday of next week, those 30 days would have expired without a single legislative recommendation finding its way to the Hill.

Even more frustrating, however, has been our difficulty in getting administration witnesses to testify on these issues. The Vice President's office has postponed several times his meetings with this committee to discuss these ideas.

I understand we are hopeful now that he will be here next week. Yet every Cabinet officer up to now has refused to testify before the



committee on any NPR related issues until after the Vice President has fully presented the package to the Congress.

So we are in a kind of a who goes first situation. A unique opportunity is being lost to enact these proposals quickly. So I am very pleased that with your testimony, Mr. Panetta, you have broken that logjam, regardless of the Vice President's ability to meet with us to deliver the NPR recommendations, it is my fervent hope that we can proceed with all deliberate speed to consider and enact these cost cutting ideas. Again, I thank you for appearing before us.

I would ask unanimous consent that the statement by Mr. McCandless might be entered in the record.

Mr. CONYERS. Without objection.

[The prepared statement of Mr. McCandless follows:]

**STATEMENT OF  
HONORABLE AL McCANDLESS**

**SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY  
COMMITTEE ON GOVERNMENT OPERATIONS  
October 7, 1993**

Mr. Chairman, I am pleased that with this hearing, the Government Operations Committee is finally beginning to look at the recommendations of the National Performance Review. I believe that the NPR recommendations provide the nation with a unique opportunity to, at least in a small way, reduce the costs associated with the federal government, as did the Grace Commission recommendations in the early 1980s.

One recommendation, which may not save money but I believe would make the Congress more efficient, would be the adoption of a biennial budget cycle. Under the NPR recommendations, the President would be required to submit a biennial budget resolution. Appropriations bills would be enacted for a two-year period as well. Budget adjustments would be made in off years for unforeseen and, hopefully, exceptional circumstances. Other two-year budget cycle recommendations, which have been introduced over the years, would mandate any combination of a two-year budget resolution, two-year program authorizations, and, often, two-year appropriations. All of these proposals should be given serious consideration.

My support for two-year budgeting has always been tied to my concerns over congressional workload, scheduling, and the timely enactment of budgetary legislation. It is also tied to my concerns about both the quantity and quality of congressional oversight of program administration. For nearly as long as I have been in Congress, the amount of time we have devoted to endless budget resolution debates and continuing resolutions

**Statement of Honorable Al McCandless, Page Two**

has continued to expand. While these spending debates have taken longer and longer, the amount of time individual Members can spend on the authorizing committees overseeing government programs has plummeted. If a two-year budget cycle will give the Congress more time to study the effectiveness and efficiency of governments, than it is a reform that we should give our utmost attention.

Mr. CONYERS. I am pleased now to call upon subcommittee Chairman John Spratt for any welcoming remarks.

Mr. SPRATT. Mr. Chairman, I appreciate the opportunity, but in the interest of time and in the interest of hearing Mr. Panetta and the other witnesses, let me welcome Mr. Panetta and say that I will forego any statement in the interest of time.

Welcome, Leon.

Mr. CONYERS. We are happy, as always, to have you here in the Government Operations Committee.

#### **STATEMENT OF LEON E. PANETTA, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET**

Mr. PANETTA. Thank you, Mr. Chairman, and members of the committee. I appreciate very much your holding this hearing on biennial budgeting. It is indeed the beginning of a review of the recommendations of the National Performance Review, and I appreciate your inviting me to testify on behalf of the administration.

As you know, the Vice President's National Performance Review has recommended that the President and Congress move to 2-year budgeting. I might say, Mr. Clinger, that in terms of the overall approach on the National Performance Review, there are really several different fronts for implementing those recommendations.

The President has signed a number of Executive orders, particularly with regard to personnel, as well as regulations, that are now in place that we are implementing. There will be additional Executive orders that we are now looking at for implementing parts of it.

Second, we will present an October package that provides a number of the recommendations in the National Performance Review as part of that package, the centerpiece of which will be doing something on procurement reform, as well as personnel issues to try to assist us in achieving the personnel goals that have been established by the National Performance Review, and then third of course, we will build in a lot of these proposals in the 1995 budget recommendations.

We are obviously facing some very tough constraints with a freeze, a hard freeze on discretionary spending. I think the agencies and departments want to be able to use some of the recommended savings in order to do that. So we are trying to approach this on all fronts, and we have basically wanted the Vice President to kick this off himself, since he put so much work into the National Performance Review, and then we will be more than happy to work with you and the chairman and others in the Congress to try to move these recommendations along.

As you know, with regard to biennial budgeting, I have strongly supported that recommendation. It was one of the first bills I introduced as a freshman Member back in 1977. I think it made sense then and it makes sense now. As a matter of fact, as I mentioned at a staff meeting this morning, if there were a proposal to do a once in a millennium budget proposal, I might support that today as Director of the Office of Management and Budget.

We need to try to do better in terms of trying to make the budget process more effective, more rational in the way it works, and I

think all of us know the problems that we now face in the budget process, and the weaknesses of the current budget process.

We have an annual appropriations process that rarely is completed on time, and that is due to a lot of reasons, but it is an experience we repeat year in and year out. This year is no exception. We are looking at almost 11 bills that still remain to be completed and we are in the middle of a continuing resolution on appropriations.

We have programs that go on year after year with, I think, inadequate scrutiny by both the Congress and the administration because we are trapped in this year-to-year budget process. We often-times find ourselves making excuses why we can't confront these kinds of issues with regard to programmatic changes.

We have, I think, a very unpredictable spending level. The agencies are seeking to operate their programs in efficient and effective ways, but they are not quite sure what they are going to have for the fiscal year they are already in as they try to make preparations for the fiscal year that is coming up.

So they face that problem. And we have procedures that occasionally give the American people the impression, sometimes more of anarchy than of a logical decisionmaking process about national priorities. Unfortunately, as those of us who participate directly in this process are aware, that perception is often, I think, very close to the reality when it comes to dealing with budget issues.

There is no easy solution to these problems. Everyone always struggles to find magic bullets in this business. There are no magic bullets to try to solve all of these problems. Budgeting will always be, by its very nature, a messy process because you are dealing with a lot of funding and a lot of areas involving thousands of programs.

By definition, developing a budget and deciding on appropriations means allocating very scarce resources to a vast array of competing priorities. So in a democracy, that will never be an easy process. There is nothing wrong with that. We ought to debate priorities. We ought to debate funding priorities within this overall and huge budget.

But having admitted that that is the case, I don't think there is any reason why we can't make the process more rational and more conducive to the fundamental goal of budgeting, and that really is the effective targeting of limited taxpayer's dollars to effective programs. That is really what budgeting is all about. That is what it should be about.

Two-year budgeting, I think, can make a big difference. That is why I supported it. That is why I recommended it to the Vice President and that is why I am here today urging that Congress look at this seriously and see if there is a possibility of putting this kind of approach into place.

Biennial budgeting I think would improve both the way the administration operates on budget matters, as well as how the Congress operates on budget matters. I think there are five points I would make with regard to that, if I could summarize those briefly.

One is greater stability and rationality. Two is improved management, three is better oversight, four is more predictability, and five is, I think, less incentive for wasteful spending.



Let me just summarize each of those points.

Stability. Today, we appropriate on an annual basis, and no sooner do we end the debates and the battles over the very contentious budget issues that we face each year, than we have to move into the same battles all over again with a new budget.

At this moment, we have, as I have said, a continuing resolution that will take us through the next 2 weeks. We hope that we have sufficient time to complete all 13 appropriations bills within that timeframe.

We have got a number of conferences going on. They are still trying to complete some bills, but we hope that we can complete this process within the next 2 weeks. The fact that we needed a CR in a year when the budget resolution was completed in virtually record time—I mean, we completed the budget resolution which really sets out the outlines for the appropriations process in record time this year—tells us something about the difficulties of trying to each year complete the appropriations process.

Adding to the irrationality of the process, we haggle over the details of the remaining 1994 appropriations bills at the same time that OMB is now involved with various departments and agencies over what we are going to do about the President's fiscal year 1995 budget.

As a matter of fact, I have asked the agencies and departments to report back as of October 1. We are now beginning to get their recommendations for the 1995 budget at the very same time that they are not certain what they are going to get for the 1994 fiscal year in that budget.

We will obviously present new initiatives, elaborate on existing ones, but the existence of this new discretionary spending freeze that we are operating with is going to cause us to look for additional spending cuts beyond what we proposed in the 1994 budget in order to fund the President's investments.

And as I said, we aren't quite sure what we have in the 1994 budget yet until those conferences are completed.

The reality is that changes from one year to the next in hundreds of accounts are relatively small and predictable. We generally know, you know, that we are going to make some small changes from year to year. Even many of the more significant changes, it seems to me, can be decided every 2 years.

Because of changing circumstances, funding changes cannot be delayed until the next budget. They can be addressed, if they have to be, in supplemental budgets much as they are today.

Two-year budgeting would introduce, I think, just greater stability, as I said, and rationality in the process. We would have the additional time to lay out 2 years for that budget and the agencies and departments would know where they are at over a longer period of time so we could better plan for the future.

That takes me to the second point, which is just better management. Nobody in Washington feels more strongly about the need for better management than the leaders and members of this committee. You have been working the management issue for a long time, and so have your counterparts on the Senate side.

If there is anything we need to do better, it is manage the way government operates.

With regard to budgets, we spend a tremendous amount of time and manpower in the executive branch just on the budgeting side every year, a lot of it is devoted to simply going through the same dance every time we have to prepare budgets.

To a large degree, that is time and manpower that is taken away from the actual management of other programs. Biennial budgeting would undoubtedly reduce the amount of resources put into budgeting, and it should.

Frankly it would help us if we could reduce those targets and basically, as I said, establish more time to look at management of ongoing programs. Perhaps more important is the longer time line that a 2-year budgeting gives managers to put their policies in place.

Right now, for example, in order to try to meet the freeze targets we have, one of the things we are talking about is how can you do some cost cutting issues where you look at programs that cut across a number of departments and agencies, and how can you try to ration all those programs in a number of ways.

For example, trade issues impact a number of agencies. Is there a better way to try to consolidate trade issues? Energy questions. Questions related to the environment. Those are the kind of cross-cutting issues we need to spend more time on in a very tight budget, but the year-to-year budgeting process basically puts us in a position where we kind of excuse ourselves and say, we can't change it right now, we are in the middle of a new budget. Let's fund it next year and try to spend a little bit more time thinking about it, and you find yourself just caught up in having to continue to fund those programs because you don't have the time to look at how those programs really work and make the changes that need to be made.

Oversight. One of the problems I had when I was a Member of Congress was that the committee I was on very frankly did not spend enough time doing oversight of existing programs. We basically used to do reauthorizations, look at the program that was there, decide how much to expand the program, try to deal with however much spending we wanted to build into it and failed to ask the question, is that program something we ought to have. Is it doing the job.

We don't do enough of that in the Congress. We don't do enough of that in the executive branch, which is to look deeply at existing programs and decide if they are doing the job that they ought to be doing. A lot of it, as I said, is we are caught up in the year-to-year process.

The Appropriations Committees have little time really to do oversight of the programs that they fund each year. They know they go through their huge numbers of hearings, and they should, but most of those hearings are devoted not to whether or not the program should exist or be funded at all, but largely what do we need in addition to what we had last year.

In the executive branch every year, we are involved essentially in the appropriations battle as well, and agencies end up working with Congress on one budget, working with the executive branch on the next budget and, as I said, not having the time or the manpower to really scrutinize those programs.



So I think we need the additional time to basically do more oversight of existing programs, and we just don't have that room when we are doing the year-to-year budgets that we are currently involved with.

Fourth, predictability. We need to provide greater predictability about the funding that we are going to provide for programs so that both agencies and departments know over a longer period of time just how much money they are going to operate with, and also State and local governments, private organizations, educational institutions all understand what they are going to be getting, rather than having this situation sometimes where when we haven't completed the budget, they don't know how to set their own budgets because they are waiting for Congress to act or they are waiting for the administration to act. So I think greater predictability is another advantage of 2-year budgeting.

The last point I would make is just less waste, only because there is less opportunity to constantly build in special projects. When you have year-to-year appropriations, as all of us know, the reality is that too often we—there is an effort to try to build in special projects or pork, whatever you want to call it. We have all asked for it. I have asked for it. I have used that process, and that has been part of the game to try to build in projects, and when you have year-to-year spending proposals, you take advantage of it, you ride that train because those are the trains that are leaving the station and you try to get your funding into it.

I know that we will never eliminate all of the special projects. That is part of the process here, but at least it will reduce some of the incentive that we now have to continually pack these in year to year.

Let me just mention briefly some of the other issues, Mr. Chairman, that you asked me to address and some of the specific questions you gave to me.

The first issue was the consequence of a biennial budget cycle on predictability and I think I have responded to that issue in my arguments.

The second issue was the ability of Congress and the President to respond rapidly to changing events. There I would just suggest that what we need to do then is—and we will have to do it, is to come back to Congress with a supplemental if it looks like we need a supplemental request.

We do that now on year-to-year budgets. My God, even this year we have done something like three to four supplementals, and I think what we would do is probably rationalize a little better the supplemental process. We could do one supplemental to make whatever changes need to be made.

The Congress would have the opportunity to review whether those supplemental changes are in fact necessary, but I think actually it might help us reduce the kind of shortcut supplementals that we do now on this kind of rapid fashion.

As I said, we are doing three or four supplementals a year now. I think if we knew we had 2 years in an overall budget, maybe people would ask better questions about whether or not we need those supplementals.

The fourth issue you asked about was the impact on our ability to administer adjustments to discretionary spending totals. This is a technical issue, but it is an important one. I think we probably would have to make some technical changes to give us the ability to make those adjustments.

We now have to make the adjustments each year on discretionary increases based on inflation. We probably ought to make those kind of adjustments in a biennial budget process as well.

The final issue is the frequency of reconciliation opportunities. I think reconciliation is not a tool that ought to be overused in this process. I think reconciliation is a tool we ought to use when we are making major changes, as we did this year in the budget agreement, as we did in 1990 with the 1990 budget agreement.

I don't think it is a tool that ought to be overused, and for that reason, it doesn't bother me that you are not going to have reconciliation available to you every year. I think it ought to be used carefully anyway, and I think a biennial budget would give us the opportunity to perhaps use it more carefully.

I don't believe, as I said, that any budget process solves the problems of budgeting in and of themselves. We still need to decide how much money to raise, how much money to spend, and how to spend it.

But if we can make the process a little more rational, maybe we can help ourselves, and more importantly, the American people who depend on us to better manage their money and the country wisely. Alice Rivlin, who as you know is Deputy Director at OMB now and former head of the Congressional Budget Office, described once the advantages of 2-year budgets, and I think it is a good summary. Let me quote that.

The managers of Federal programs and the recipients of Federal grants could plan programs more effectively if they could assume funding for a longer period. They could spend more time managing and less time preparing and defending budgets and adjusting to funding changes, and Congress, relieved of annual budget battles, could devote more attention to long-run issues and more careful oversight of Federal programs.

I think that is the reason that biennial budgeting is an idea whose time has come and I hope that this committee and the Congress will evaluate it carefully and hopefully take action on this proposal.

Mr. CONYERS. Thank you very much, Mr. Director.

[The prepared statement of Mr. Panetta follows:]

TESTIMONY OF LEON E. PANETTA  
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

HOUSE COMMITTEE ON GOVERNMENT OPERATIONS  
SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY

HEARING ON THE PROPOSAL  
OF THE NATIONAL PERFORMANCE REVIEW  
FOR BIENNIAL BUDGETING

OCTOBER 7, 1993

Mr. Chairman, I congratulate you and the Committee for holding this hearing on biennial budgeting, and I want to thank you for inviting me to testify on behalf of the Administration.

As you know, the Vice President's National Performance Review has recommended that the President and the Congress move to two-year budgeting. As a long-time advocate of the concept, I strongly support that recommendation. One of the first bills I introduced as a freshman member of Congress back in 1977 was a proposal to require biennial budgeting. It made sense then, and it makes sense now.

Today, we all know that the budget process does not work the way it should. We have an annual appropriations process that is rarely completed on time. We have programs that go on year after year with inadequate scrutiny by the Congress and by Administrations. We have unpredictable spending levels for agencies seeking to operate programs in the most efficient and effective ways. And we have procedures that occasionally give the American people an impression more of anarchy than of logical decision-making about national priorities. Unfortunately, as those of us who participate directly in the process are well aware, that perception is too often very close to the reality.

There is no easy solution to these problems -- no magic bullet. Budgeting will always be a messy process. By definition, developing a budget and deciding on appropriations means allocating scarce resources to a vast array of competing priorities. In a democracy, that will never be easy.

But I believe that we can make the process more rational and more conducive to the fundamental goal of budgeting -- the effective targeting of those limited tax dollars.

Two-year budgeting can make a big difference in that regard. That is why I have supported it, that is why I recommended it to Vice President Gore, and that is why I am here today urging the Congress to adopt it.

Biennial budgeting would improve in a number of ways the way government works at both ends of Pennsylvania Avenue. The five most significant are: greater stability and rationality, improved management, better oversight, more predictability, and less incentive for wasteful spending.

#### Stability

First, stability and rationality. Today, we appropriate on an annual basis. No sooner do we end the debates and the battles over the many contentious budget issues that come up each year, than we move into the same battles all over again with a new budget. At this

moment, we have a continuing resolution that will take us through the next two weeks. Of course, we hope that this will give us sufficient time to complete all 13 appropriations bills.

The fact that we needed a C.R. in a year when the budget resolution was completed in virtually record time tells us something about the difficulties we go through every year to complete appropriations.

But adding to the irrationality of the process, while we haggle over the details of the remaining several Fiscal Year 1994 appropriations bills, the Office of Management and Budget and the various departments and agencies are already devoting a substantial amount of their time and resources to the development of the President's Fiscal Year 1995 budget.

In that budget, we will undoubtedly present new initiatives and elaborate on some existing ones. And the existence of the new discretionary spending freeze will cause us to look for additional spending cuts beyond those we proposed in the 1994 budget in order to fund the President's investments.

But the reality is that changes from one year to the next in hundreds of accounts are relatively small and predictable. Surely, these smaller changes can be decided for two years at a time, saving enormous time and effort. Even many of the more significant changes can be decided for two years. If, because of changing circumstances, funding changes cannot be delayed until the next budget, they can be addressed in supplemental budgets much as they are today.

Two-year budgeting would introduce far greater stability and rationality into the process. At this time of the first year of the process, we would essentially be done with the heavy lifting of the budget process and prepared to concentrate on the many other issues the American people send us here to address. As I have stated, any needed changes in the second year of the process could be accomplished in a supplemental bill.

#### Better Management

The second benefit of biennial budgeting, and an extremely important one, is better management. Nobody in Washington feels more strongly about better management than the leaders and members of this Committee and your counterparts in the Senate.

There are two ways in which two-year budgets would improve management. First, the amount of time and manpower spent by the Executive Branch on budgeting is enormous. To a large degree, that is time and manpower taken away from the actual management of programs. Biennial budgeting would undoubtedly reduce the amount of resources put into budgeting.

Perhaps more important, though, is the longer time line that two-year budgeting gives to managers to think about their programs and put new policies in place. Year-to-year



budgets make it very difficult to execute the fundamental reforms that are sometimes necessary to adjust programs to new realities, to correct malfunctioning programs that have not been addressing old realities, and to incorporate new ideas for making good programs even better. That is what management is all about, and the year-to-year focus is discouraging it rather than encouraging it.

I think we can all agree that management of the bureaucracy and of Federal programs has been far from ideal in recent years. Improving management is a very high priority for this Administration, as it is for this Committee. Biennial budgeting would free more of the resources we need to manage programs better.

### Oversight

The third advantage of biennial budgeting is also very important: the increased ability of both the Congress and the Executive Branch to carry out oversight of existing programs. Today, the appropriations committees have little time to conduct real oversight of the programs they fund each year. Programs endure. Sometimes they change. Rarely do they end.

Likewise, with the Executive Branch involved every year in the appropriations battle, agencies end up working with Congress on one budget, working within the Executive Branch on the next budget, and not having the time or manpower to scrutinize their programs.

Two-year budgets would give both the Congress and the agencies the time they need to step back and examine programs. It would enable them to consider changes, to consider new ideas, to consider what might no longer be effective or needed. This would be true for authorizing as well as appropriations committees. It would enable all of us to make more intelligent decisions about the future of programs and about how to achieve the goals of those programs. Time is something of which we have all too little. Two-year budgets would give us more.

### Predictability

The fourth benefit of two-year budgeting is predictability — predictability for those served by government programs and predictability for those who must administer them.

Today, the employees of our departments and agencies never know from year to year what they will have to spend on their programs. Indeed, they are planning budgets for two years down the road while they are working with the Congress on the budget for the coming year. As a result, they cannot do the kind of planning that would lead to more effective and efficient allocation of resources. Likewise, state and local governments, private organizations, and others who receive funds from Federal programs do not know from year to year what resources will be available to implement the goals that we have established for those programs. That makes no sense.

Two-year budgeting will provide greater predictability for those who administer programs and those who depend on them, and that will enable both to maximize the effectiveness of Federal programs.

### Less Waste

Finally, biennial budgeting could improve the budget process by reducing opportunities to enact wasteful spending. Call it pork, call it special projects, call it anything you want. The reality is that too often the way things are accomplished in this town is by funding projects that are not really needed. We've all asked for it, we've all voted for it. It will never be eliminated entirely.

But the annual appropriations process is clearly the most effective vehicle for such spending. Too often, members' votes for bills are secured by providing favored projects, regardless of the merit. The more votes that are taken, the more projects that might be needed to gain support.

With one budget process every two years, the opportunities and the imperatives for that kind of trading would be cut nearly in half. I won't suggest that biennial budgeting would cut the amount of wasteful spending in half, but it would curb it by curbing the number of opportunities for it.

### Other Issues

In your letter of invitation, Mr. Chairman, you asked me to address a number of specific questions, which I will attempt to answer at this time.

The first issue was the consequences of a biennial budget cycle for predictability and planning certainty for Federal agencies and congressional committees.

I have already sought to respond to this issue. I believe it is one of the strongest arguments for biennial budgeting.

The second issue was the ability of Congress and the President to respond rapidly to changing events and changing budget priorities.

In my view, a biennial budget process would not curtail changes during the two-year period any more than the current budget process curtails changes during the one-year appropriating period. Occasional supplemental appropriations bills undoubtedly will be necessary -- but they occur today as well.

Indeed, that is the third issue your letter mentioned -- the likelihood and consequences of increasing reliance upon supplemental appropriations.



Mr. Chairman, during the just-ended fiscal year, Congress adopted four supplemental appropriations bills. In fiscal 1992, Congress adopted four supplemental appropriation and rescission bills. In fiscal 1991, Congress adopted three supplementals.

There will always be changing circumstances which require supplemental appropriations or rescissions. We routinely have at least one. And, as the previous three years illustrate, we frequently have more in reaction to emergencies and other unforeseen circumstances.

For that reason, I don't expect an appreciable increase in supplementals under biennial budgeting. And in any event, there is simply no way that whatever few additional supplementals might occur will come close to the burden on the Administration and on the Congress of a full set of appropriations bills.

The fourth issue you mentioned, Mr. Chairman, was the impact on our ability to administer required adjustments to discretionary spending totals and entitlement spending targets. This is a technical but important issue.

A number of technical and conforming changes to the budget laws will obviously be necessary if biennial budgeting is introduced. A mid-biennial adjustment in discretionary caps and mandatory targets may well be necessary if there are significant economic changes. I believe a mechanism can be devised to provide for such adjustments if it is needed.

The final issue was the impact on the frequency of reconciliation opportunities to achieve deficit reduction. As you know, I believe very strongly in the use of reconciliation to achieve the mandatory savings and revenue increases needed to reduce deficits. Reconciliation has been used very effectively, and I am sure it will be used again in the future.

However, reconciliation is not required, and has not generally been employed, on an annual basis. Rather, it has usually served to implement multi-year budget agreements between the Congress and Administrations. In short, reconciliation makes as much sense as part of a biennial budgeting process as it does in an annual budget process, and I do not expect any opportunities for deficit reduction to be lost.

Again, I don't believe that any budget process change solves the problems of budgeting. We still need to decide how much money to raise, how much to spend and how to spend it. But if we can make the process more rational, we will help ourselves and, more importantly, the American people, who depend on us to manage their money and their country wisely.

To close, I'd like to quote an authority on this subject, who happens to be my Deputy Director at OMB and the former Director of the Congressional Budget Office, Alice Rivlin. In between those two assignments, she described the advantages of a two-year budget:

The managers of federal programs and the recipients of federal grants could plan programs more effectively if they could assume funding for a longer period. They could spend more time managing and less time preparing and defending budgets and adjusting to funding changes. And Congress, relieved of annual budget battles, could devote more attention to long-run issues and more careful oversight of federal programs...

Mr. Chairman, biennial budgeting is an idea whose time has come. I hope it will be approved by this Committee and by the Congress. At this time, I would be happy to respond to your questions.

Mr. CONYERS. You bring an enthusiasm to an otherwise dry subject and you are also a pretty good salesman, Leon. I mean, your persuasive abilities have been very effective in bringing different forces together.

Maybe I have been here long enough to see this as a battle between the forces that want to preserve turf and those who are willing to give it up for the greater good. Unless there are people like you and others in the administration willing to ask most of us to make concessions and changes that may not enhance our jurisdictions, it is going to be tough. This may be a very simplified way of looking at it, but I think, other than the technical adjustments, it is hard to find rational people who would advocate that the most powerful nation on the planet should limp along from year to year in planning how it is going to allocate its resources.

It almost boggles the imagination that we are up here trying to pedal an idea that is so overdue, especially in the fiscal crisis we currently find ourselves, that you would think we could move this proposal along much more rapidly and get on a 2-year cycle.

Somebody someday is going to suggest we do more than 2 years in a budget cycle. You already have, with your once in a millennium budget comments. But anyway, thank you for opening up the discussion.

I would like to call on Bill Clinger for his observations.

Mr. CLINGER. Thank you very much, Mr. Chairman, and Leon, thank you for an excellent statement.

I am delighted with your enthusiasm for the biennial budget process. My mission in life is to encourage you to be as equally enthusiastic about a capital budget, which we have discussed from time to time.

One of the things that I think you have touched on that is important is the bruising battle up here in recent weeks before an authorizing committee and the Appropriations Committee having to do with public works. I think that was in large part engendered because of the disconnect between the authorizing process and the appropriations process where there is a tremendous incentive for Members to go to appropriation when there is a 3, 4, or 5 year authorizing process and they feel they don't get another shot at convincing an authorizing committee of the merit of what they are proposing, so they go to the appropriating committee. That has created, you know, real bitterness within this body and has not been helpful at all.

Do you see this, I think you do, that this would alleviate that problem some? If we get the appropriation process and the authorization process a little closer in synch so that there is not that incentive for people to go forum shopping if you will?

Mr. PANETTA. I don't think there is any question. You all know the problem. The problem is that if you don't happen to be on one of those authorizing committees that works on the funding of particular proposals, like highways and what have you, what you do is you backdoor the process. Go to the Appropriations Committees, and if you can't do it on the House side, you go to the Senate side and on the Senate side, you have the problem that the chairman of the Appropriations Subcommittee is oftentimes the chairman of the authorizing committee, so if you can't get it done in authoriza-

tions, he will do it in appropriations and he knows he can ride that horse each year, and that becomes just a focal point I think for the kind of conflict we saw happen on the transportation bill.

It just makes better sense if you could put both appropriations and authorizations on a 2-year cycle, then they are both operating on the same basis.

Mr. CLINGER. We might have longer authorizing bills. It would remove that incentive entirely for forum shopping so that is certainly one of the stronger benefits. Otherwise authorizing committees begin to see their role as sort of irrelevant if they can be backdoored at any turn.

You mentioned the supplementals and that was something that occurred to me. This is a charge that I guess has been made that why we should not go this way. They said, we really wouldn't be able to do more oversight because of the dynamic process of budgeting and things change, the world changes, there are new demands, et cetera, that really we would be spending all of our time in the off year just dealing with supplementals.

I think you have addressed that pretty much by saying you think it could be done in a more rational way. Is that basically what you are saying?

Mr. PANETTA. Yes. There is no question. Obviously there will always be changing circumstances, and obviously a great power like the United States of America has to adjust to those kinds of things.

If there is a situation in Russia that demands that we try to provide additional funding to try to support that nation, we are going to go with a supplemental. If there is a disaster in the Midwest in which six or seven States are impacted by a flood, we are going to respond to that. That is the nature of it.

And we will continue to do that, but I think the key here is that it isn't—what I sense right now is that because we don't have this more predictable pattern of the budget over a 2-year period, that supplementals have now become just another way to try to inject themselves into the budget process on a year-to-year basis, and we need to try to rationalize that more.

I think what I would like to see frankly is if we went to a 2-year budget, you could use the supplemental in kind of a very comprehensive fashion saying, these are the changes we think ought to be made. You could have that one debate on one supplemental to make those kinds of adjustments and you wouldn't need to have this constant revisiting that goes on now, unless there is an emergency of some kind.

Mr. CLINGER. The chairman has alluded to the fact that you are an excellent salesman and I would only suggest that you are going to need to be in this regard. As you are aware, you have some fairly heavy hitters who are marginally less enthusiastic in terms of this issue and they are in a fairly critical position.

Do you have a strategy to deal with that? Do you hope to be able to bring your message to the appropriations committees? Because without their support, I think it is going to be very difficult to accomplish.

Mr. PANETTA. I don't disagree with you. I introduced this bill almost 16 years ago.



Mr. CLINGER. 1977, I understand. You were the first one to introduce it.

Mr. PANETTA. At the time, it was pretty clear that the appropriations committees were not enamored of this approach. But it is interesting that even talking with some of the appropriators, I think they are beginning to sense that they need the time to really look at a longer period of funding themselves, and that it really makes sense from their perspective, and I think as changes occur, as they are occurring, I think you are going to see more Members who will look at this as a better approach to take.

But I am not kidding myself, having faced that opposition in the past. We still have some serious opponents to going to a 2-year budget and we just need to bring that case, if not to them, to hopefully a majority of other Members.

Mr. CLINGER. I think you will have good strong support on this committee for that effort, and I applaud you for making the effort.

Thank you, Mr. Chairman.

Mr. CONYERS. Thank you.

Mr. John Spratt, a budget leader as well as a subcommittee chairman, has been very helpful in our role in the budgeting process.

Mr. SPRATT. Thank you, Mr. Chairman, and Leon, thank you for excellent testimony and advocacy.

I am a supporter of the idea also, but I am a tepid supporter. You are a total supporter, and I have some reservations that I would like to run past you and get your reaction to.

First of all, as you know, I serve on the Armed Services Committee and came here in 1983. At that time and throughout the 1980's, the Reagan and then the Bush administration pushed for multiyear procurement and would have preferred a multiyear defense bill.

If we had acceded to their request and multiyear procured many of the major programs, such as the B-2, it would have been very difficult for us to turn the battleship around and downsize defense. Indeed I think the most significant thing Congress did to diminish the deficit and prevent adding more debt to the national debt was to resist the Weinberger, Carlucci defense budget request from 1984 on.

When I—after Gramm and Hollings was adopted, even Weinberger came forward with a 5-year defense plan that foresaw having \$456 billion appropriated for defense by fiscal year 1989, and we didn't let that happen.

If we had been utilizing multiyear procurement in many of these major R&D and procurement programs and if we had a biennial budget, it would have been a lot harder to resist the request and to turn it around, and hold it in place.

Does that give you a concern, that locking into a 2-year request and multiyear procurement makes it much more difficult to downsize when events domestically and internationally change?

Mr. PANETTA. Well, you make a good point, particularly for that period of time because defense was going this way. Over the next 5 years, defense is coming down this way because of the budget agreement, and we are going to see significant reductions, over \$100 billion, in the defense budget over the period of the next 5 years.

I would argue that it is probably a period when we need greater stability with regard to the defense path than the last few years because communities and industries and everyone associated with the military needs to know that we are going to stay on a pretty specific path with regard to these next few years.

So I think it actually would complement the decision that we made this year to basically stick to that path.

On the issue of contracting over a period of time, I guess that has always been a concern, is that a lot of that budget is contracted over a multiyear period and sometimes we do lose control when that happens.

Once you lock in the BA, budget authority, it is tough to revisit those, but that happens right now. Most of this usually takes place over more than a 2-year period when you lock in on some of these and you have to revisit them.

I guess I would argue that if, for some reason, a weapon system—in the oversight hearings in the Armed Services Committee, if you found that a particular weapon system is wasteful, that you could, in fact, enact legislation at that time to try to deal with it.

This doesn't tie your hands in addressing specific problems. As a matter of fact, it might give the Armed Services Committee that much more incentive to do the kind of oversight that I think you are going to have to do as we try to figure out what our national security is going to look like in these next few years.

Mr. SPRATT. I agree with that, but I know from experience and you have had this same experience more than I have, that you really get the attention of the agencies and departments when you have their budgets on a short leash, and when the departments know that this is not just oversight, it is oversight leading up to a budget appropriation, that if they don't respond, if they don't co-operate, they may be sitting in the chairman's office hat in hand trying to get something restored to the budget.

It tends to focus the attention and improve the response of the departments, so maybe we get better oversight because we have got more time, but we also may get less response from the agencies. I don't know.

I think you make an excellent argument when you say too much of your time, too much of the executive branch time at the subcabinet level and upward is devoted just to working budget details, crunching numbers constantly, and too little time is devoted to fiscal matters with respect to controlling and financial reporting and all the financial systems that we badly need to get in place.

The subcommittee that I chair held a hearing just a couple of days ago about the financial report rendered by GAO for Customs, one of the pilot agencies under the CFO Act, and they refused to certify their financial returns for this year. You obviously need to devote a lot of attention to getting the CFO process working and to getting these financial systems in place and standardizing throughout the government. I can't imagine how you are going to find the time to do that if you have to do the budget every year.

One thing that does concern me about not having reconciliation every year is the provisions that we added to the budget reconciliation this year dealing with an entitlements budget process. As you know, we tend to deceive ourselves. We tend to buy into optimistic

estimates or sometimes an economy turns down, we didn't foresee it, entitlement spending heads upward and spending revenue goes south.

We required the administration each year to track the variation of total entitlement spending against the baseline that we established and the projection. If we don't do it annually, the adjustment may be extremely substantial and awfully difficult to deal with if we only come around to dealing with it every 2 years.

How do we really track entitlements if we are only going to deal with the problem every couple of years?

Mr. PANETTA. Well, interestingly enough, what we are seeing right now, at least on the entitlement picture is a more stable growth pattern than what we have seen in the past, and fortunately in large measure that is due to the state of the economy.

If you are looking at a steady growth pattern in the economy, then we are looking at—and low inflation, you are looking at a more stable picture with regard to a lot of the entitlements. Interestingly enough, even on the health care front, we have seen a more stable picture over the last few months than what we saw last year and the year before when we had dramatic increases in Medicaid, as well as Medicare.

The targeting that we have done now indicates that at least based on what we currently see, there won't be large adjustments that will be required, if any. If those—if for some reason the economy would collapse or we would see rampant inflation take place, then clearly the question would be, do we address that or do we basically agree with the Congress that the emergency in the economy mandates that we not deal with it?

So I think we have got the room, based on the targets that we have built in, to give us the kind of predictability that we have needed in the entitlement area and we haven't had before.

The second thing I would say is this, we will continue to seek savings in entitlements. For example, the health care reform bill has a significant piece there with regards to entitlement reform in the health care area. That is outside reconciliation, but it nevertheless is being addressed in the context of health care reform.

I frankly view the situation where we will have to pay under the pay-go rules, if we want to expand certain benefits, we are probably going to have to include reductions and savings in entitlements in order to pay for certain expansions, and that will be enclosed in other legislation as it comes forward.

So I don't think it is going to interfere with our ability to continue oversight on entitlement areas.

Mr. SPRATT. We dealt with this subject at some length in the legislative reorganization committee, and I think the consensus we came to among those for it and those against it and those tepid on the idea was that probably what this would evolve into is a major budget every 2 years and a minibudget in between, more than supplemental probably.

Would it be possible if we had this sort of minibudget in the off year to have a reconciliation process combined with it?

Mr. PANETTA. That is worth looking at. I don't—I mean, I wouldn't just say outright that we need to cast that aside, but I think that is an issue we need to think about.



Again, reconciliation is a very—as you know, a tool that you have to be very careful in the way you use it because it can become a vehicle for mischief as well as for savings.

Mr. SPRATT. One final question. As you know, the appropriators are not excited about the idea of a biennial budget, to say the least. One alternative and one compromise solution would be to have a biennial authorization process.

For the most part, we have got multiyear authorization in everything but defense. Do you see any purpose served by just having multiyear authorization as opposed to annual appropriations?

Mr. PANETTA. Obviously you would prefer to see us take the step boldly, but it is almost a call that the legislative process has to make. If it looks like—I mean, my view would be that if you can at least get something put in place on a biennial budget, and that is the only alternative you have to try to get the votes you need, then obviously that is something you have to look for, at least to put biennial budgeting in place, because I think then ultimately there will be additional pressure on the appropriators to try to move toward the 2-year approach.

But I think that is something you have to judge as you go through the legislative process.

Mr. SPRATT. Thank you very much.

Mr. CONYERS. Thank you. Mr. Jon Kyl.

Mr. KYL. Thank you, Mr. Chairman.

Mr. Panetta, always nice to have you here. I would like to really give the opposite question to that asked by John Spratt to you to bat back at me.

He made the point that the 2-year cycle might make it more difficult to adjust when you are trying to save money in the defense budget. Of course, the more emergency cases where you have got a new or unanticipated threat and have to make some adjustments upward and because our budget is declining so much so rapidly, and because this still is a dangerous world, as we have seen from events just the last couple of weeks, there is always the potential for some event that would trigger the need for more than just an emergency appropriation, but an adjustment in the budget.

How would you envision this process would work to deal with that kind of a situation technically?

I apologize, I wasn't here for the beginning of your testimony and maybe you covered that, but how technically would those adjustments be made?

Mr. PANETTA. Well, I would assume that—first of all, again, I think the 2-year budget gives us, at least a foundation for stability, so that the country, the communities involved, the industries involved, particularly on the defense budget, have some sense of where they are heading.

I mean, as you know, we have had this kind of fluctuation sometimes from year to year depending on politics, depending on the mood that—and having represented a community that is dependent on defense dollars, it gets crazy from year to year as to where you are headed.

So I think at least if we could build in some targets about where we think we are going over a 2-year budget, that would make sense. Now, to deal with the kind of contingencies you mentioned,

and those are real, I think the way you would have to do that is in fact—first of all, I assume the administration would be making appropriate requests.

If we need an authorization change, then clearly we would go to the Armed Services Committee for that purpose, as well as to the Appropriations Committees.

I think the more likely scenario is that we would probably come in with a supplemental request to the Appropriations Committees to basically support any kind of emergency that had to be done, and we do that now essentially.

I mean we, basically, if there is a problem in the Persian Gulf or a problem in the Middle East or what have you, we essentially resort to a supplemental to come to the Hill and ask for that additional funding. I would assume that that would probably be the more appropriate tool we would use for the future in a 2-year budget.

Mr. KYL. I support the idea of a 2-year budget and I totally agree with the arguments regarding stability. Particularly in the defense area that is important.

But there is also some danger in using supplementals. As you know, supplementals can cover a multitude of sins. They generally move through with less debate, less conversation, less knowledge on the part of the Members, and that is not the ideal way to legislate on important matters. I know you agree with that.

Can you add anything else to your other answer though to give us any more solace?

Mr. PANETTA. I think supplementals ought to be used cautiously, first of all. I don't think we ought to overuse supplementals.

There is always that danger, because almost every other day, I have to tell you, as Director of OMB, I get a request from somebody to do a supplemental on something.

Mr. KYL. Dire emergency.

Mr. PANETTA. Dire emergency, dire this or dire that, and it is not that there isn't some justification for their argument, but the problem is that if you misuse the supplemental approach, it can, as you said, become a vehicle for all kinds of problems.

What I have found is that indeed the Congress is being much more careful and cautious about reviewing supplemental requests, and that has been very helpful, because they are asking more questions. How is it paid for? Does it make sense? Do we need it?

And I honestly think that what we have seen over the last few months is that the Congress itself has become much more cautious about supplemental requests, and that gives me some encouragement that I think this process can work more carefully.

Mr. KYL. Would there also be the possibility of some safeguards written into a 2-year budget cycle legislation that would also constrain the use of supplements somewhat?

Mr. PANETTA. I think that is possible. It is possible.

Mr. KYL. OK. Just two other quick points.

You are not the first Director to suggest some relief from the tremendous burden of dealing with all of the crunching of numbers and how that focuses attention away from other good things too. OMB has always been short on management and long on budget,

and I am sure you want to get more to management, too, and that is one of the reasons I have supported this idea of the 2-year cycle.

The last point that I would like to make is really more just of a point. It is not something necessarily you would want to respond to, but there is something rather perverse, it seems to me, about suggesting that a 2-year budget cycle would provide stability at a time when we are bringing defense down \$100 billion over 4 years. I mean, that is not a stable situation. I would just offer this point to you.

In the President's plan which called for roughly, depending upon what baseline you use, \$127 billion over 5 years, we took 9 percent of that out this year, roughly 9 percent, and that was the easy money. The tough 91 percent remains over 4 years.

I honestly believe, looking at all of the requirements, looking at the cuts that have been made so far, that there is absolutely no way under heaven that we are even going to come close to reaching that kind of a target. The only way that we would even get into it, it seems to me, is if we are willing to make some more cuts in some sacred cow programs, some programs that have a lot of support from the President. I am talking about the OSPREY, the Seawolf, things that were recommended for elimination or reductions under the previous administration which this administration has supported. Those are the only big ticket items left, expect for transport, and a carrier.

So I don't see where that money is going to come from over the next 4 years. I just offer the suggestion to you as the person who is ultimately going to have to look at this. I honestly believe that both because it is impossible to get that kind of savings out of what is left, with over 50 percent of that budget being in personnel and having reduced almost to nothing our procurement now, and the possible change of circumstances in the world. I think it is totally unrealistic to expect that we could get those kind of savings out of defense. Just an observation that has not a lot to do with the subject at hand here.

Mr. PANETTA. I understand. I just want to let you know that I am hearing exactly the same arguments from Department of Labor, HHS, Department of Justice, and the Environmental Protection Agency. Almost every department and agency is basically telling me that when they look at these targets that were established, which are essentially a hard freeze target for these next 4 years, they are saying, it is impossible, and yet that is the mandate.

I think we have got to work with the Congress and with the committees to try to achieve those goals. It is not going to be easy for anybody, let me tell you. This is not going to be an easy period. We are looking at 5 years of very tough constraints, but if we care about trying to do something about the deficit, if we care about trying to put some discipline in place, we are going to have to make some very tough choices.

Mr. CONYERS. Well, this is the soft sell today, isn't it Leon? You are pretty easy on us. We have been pushing these issues back and forward. The administration supports a 2-year cycle.

Mr. PANETTA. That is correct, Mr. Chairman.

Mr. CONYERS. Well, you know how change finally comes for these institutionally resistant subject matters. You incrementally keep



building up support, like the Martin Luther King holiday. You co-sponsor it, although you don't believe it will ever happen, and then 15 years later, it happens because everybody has joined on.

And the observation of his birthday is going on at the State and local level and around the world and so everybody says, well, hey, let's do it. Then people turn around and look and say, I wonder what took you guys so long. I think that this is the kind of subject that has to be built upon and we have to address it.

I like your approach. There are some things that we can do right away to improve the situation. We may not be able to make a revolutionary change, and those things that we can do, where we do have enough people on both sides of the aisle willing to support change, we ought to really push them as vigorously as we can.

Now, yesterday we had NASA people in here to discuss oversight issues and the Chief Financial Officer's Act. I promised the witness that I would let the Vice President know that he has had several years' difficulty finding a person to be the chief financial officer. And so we called the Vice President and left this message for him, but now that I am thinking about it, couldn't you help us help him get squared away?

Here is an agency that is almost a classic case of all kinds of run-way programs and management problems that persist year after year after year. We have got an administrator that doesn't even have a deputy and he has pledged to get on top of the problem, and they haven't ever had a chief financial officer, not once. Yesterday, when NASA was before us, marked the third year to the day, exactly, that chief financial officer legislation was reported out of this subcommittee in this room.

Question: Do you have some way of urging the agencies within the executive branch to conform to the Federal law?

Mr. PANETTA. Yes, sir. We will respond.

Frankly, our management section is responsible for oversight in that area and we are continuing to push to make sure that they appoint these individuals.

Mr. CONYERS. Is there some way that you can do more than just beg them to observe the law?

Mr. PANETTA. Well, with your help, we can kick a little ass.

Mr. CONYERS. We didn't write that into the statute but maybe we should. Mr. Clinger says maybe we ought to.

Mr. CLINGER. Would you yield just for a moment, Mr. Chairman?

Mr. CONYERS. Yes.

Mr. CLINGER. I want to second the motion here. I think there has been concern that we have a Chief Financial Officers Act. We really think it is a vital tool.

Mr. PANETTA. I share that concern. I mean, we have the acts in place. There is no reason why we shouldn't have a chief financial officer.

Mr. CLINGER. And I think too often we have seen people appointed to those positions that were perhaps not really well qualified. It got second shift, sort of. It didn't get the attention it deserves or the quality of candidate it deserved.

Mr. CONYERS. We don't want political appointees as chief financial officers. We want people who come with a background and an experience that will help organize it. It should be, for all of us, a

national embarrassment that we have departments and agencies that cannot be audited because their papers are in such disarray that no accountant or expert can go in there and look at their books. They can't be examined because they defy any organizational process whatsoever. So we need you to add your considerable persuasive abilities to that one agency.

Mr. PANETTA. I will do that.

Mr. CONYERS. We are going to get them one by one. If we don't get them all at the same time, we will just keep going down the hill and finally they will all have a chief financial officer.

Thank you for joining us this morning.

Mr. PANETTA. Thank you very much.

Mr. CONYERS. We are now pleased to bring Congressman Bill Orton to testify. We have been waiting for you. We are delighted to have you join us.

We are aware of your concerns in the area of tax and fiscal responsibilities, your activities as a private attorney, member of the bar, an organizer of—a teacher in this area, and we welcome you for your comments on the subject of a biennial budget process and other related matters.

#### **STATEMENT OF HON. BILL ORTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF UTAH**

Mr. ORTON. Thank you very much, Mr. Chairman. I do appreciate the courtesy of you and the committee in allowing me to take just a couple of minutes and I won't abuse that courtesy. I would like to submit my statement for the record and then take a couple of minutes to summarize what I would say.

To begin with, I would like to commend you, Chairman Conyers, and the Clinton administration for the progress that we are making in promoting a government that works. Pursuant to your leadership, the Congress and the President have recently enacted the Government Performance and Results Act of 1993 and earlier this year, as you know, the House passed an expedited rescissions bill which was initially considered in this subcommittee. So I commend you.

I believe that these three measures, these two that have been passed in the House, along with biennial budgeting, would go a long way to bringing rationalization to our budget process.

I don't want to repeat the things that Mr. Panetta has already said. I think he has adequately outlined the arguments in favor of the biennial budget. I would strongly endorse those and encourage this committee to act favorably upon that proposal. As a member of the Budget Committee, I recognize firsthand the repetitiveness and timeconsuming nature of our current annual budget process.

I would also like to encourage the committee to consider, along with this, the other types of reforms which can and should go hand in hand with a biennial budget, because biennial budgeting is only one part of a comprehensive budget reform package which could really bring sense and rationalization to our process.

I have authored a piece of legislation, the Comprehensive Budget Process Reform Act, H.R. 1138, which was submitted in the last Congress and also at the beginning of this Congress, which includes biennial budgeting as one of seven titles. Two other titles

are enhanced rescission, which this body has already passed, and performance-based budgeting, which the Congress has enacted. Let me just briefly mention the other titles that I would hope the committee would also consider.

Title I would place in statute essentially the provisions that this Congress has been laboring with over the last many years as a balanced budget amendment to the Constitution. I know that many Members have been very concerned about amending the Constitution and said, why don't we do it by statute.

Title I of my bill attempts to incorporate those provisions statutorily to bring about balanced budget and in fact brings the Congress and the President together with dual responsibility in achieving that factor.

Another title of my bill would include a unified operating and capital budget. I know that many Members have proposed a capital budget. Other Members are very concerned about that. In attempting to address the problems of those concerned with a capital budget, we have proposed a unified operating and capital budget which I believe brings to pass the benefits of capital budgeting without providing for the opportunities for mischief through a capital budget.

Mr. CONYERS. How does that happen? What is the point?

Mr. ORTON. Well, by having one unified budget, you are not allowed to use a capital budget simply to get around the budgeting process. The capital budget becomes part of the one unified budget but the purposes of the capital budget are for the proper reporting of those items which have a longer useful life than 1 or 2 years, which allows us then to get the information necessary to make the determinations of whether to acquire a property or lease or rent a property, the kinds of considerations in finance and acquisition which we should be making in the budget process, but aren't currently making, because we are just on an annualized budget.

If we want to build a new Federal building, it is all paid for in 1 year and accounted for in that budget. So by attempting to bring the benefits of the information we could derive from reporting on a capital basis, but including it all in one unified budget, we eliminate the opportunities for mischief and misreporting things and simply increasing the budget deficit.

Mr. CONYERS. Thank you.

Mr. ORTON. I also propose and would strongly urge the committee to consider in relation with a biennial budget, sunset provisions. The obvious benefits of the biennial budget are to allow you in the first year, as the Director of OMB indicated, to authorize and appropriate in the first year and in the second year, come back and oversee what is going on.

By setting up a 10-year cycle of sunset provisions, in each Congress we could look at one-fifth of the government operations and determine which are worthy of reauthorization and continuation and those programs which simply aren't working. This also works in very well with the performance standards which we have already incorporated in the budget.

And finally, I recommend an incremental budgeting process which would essentially replace the current services type budget where we start with last year and increase some amount for the



next year, this would require the President to identify a budget below the current budget to allow us to look at priorities.

He wouldn't have to submit that as his proposed or requested budget, but the President and OMB would submit a budget which actually makes cuts; that would help us to be able to identify the priority areas where the administration would cut if they had to cut.

Also, I commend the administration on their National Performance Review. They have indicated a number of additional budget reform proposals which I would urge the committee to examine. I believe they deserve serious consideration in a comprehensive budget reform package.

And again, I thank the committee for the work that you have already done and look forward to the product that you will produce in the future.

Mr. CONYERS. Have you gotten a reaction from the Vice President on some of these ideas?

Mr. ORTON. Many of the concepts that we included in the comprehensive budget reform are actually included in the Vice President's National Performance Review, and we have requested that they also look into some other provisions, including the unified budget with capital budgeting and the sunset provisions.

Mr. CONYERS. Very good. We appreciate your thoroughness and we hope that you will stay in touch with the committee as we work closely with the Vice President and the administration on this subject.

Mr. Clinger.

Mr. CLINGER. Thank you.

I want to thank our colleague for coming before the committee this morning and also for your initiative. I think it is an excellent one. As you may know, Congressman Wise and others I have been working on the capital budget concept for a long, long time. I think there we have received some encouragement as well from the administration that this is something that deserves to be looked at very carefully.

As you pointed out, there is some rational for borrowing money for purposes which are going to increase the national wealth, which in effect create a long-term asset. There is no justification for borrowing money to run the day-to-day affairs of the government, but we can't tell how much we are borrowing for which at this point given the fact that we have a total unified budget that doesn't differentiate between what are investments really and what are operating example pensions.

The other thing I think that a capital budget gives you is a planning tool. It really gives people out there some sense of what the needs are going to be and what the role of the Federal Government may be in meeting those needs. So I think you are making a valuable contribution to this overall debate.

Thank you.

Mr. ORTON. Thank you. I think it is also important in the capital budget to be sure that we are properly reporting the allocative cost per year of these acquisitions, including the debt service. My proposal simply changes the budget process so that we accurately report those things on an annualized basis, even though we are de-



veloping the information on a capital budget basis so it helps us make those decisions of when it is appropriate to borrow through the public treasury to acquire those capital expenditures.

Mr. CONYERS. Mr. Spratt.

Mr. SPRATT. I would just like to thank Mr. Orton for testifying, for bringing his bill to our attention. I think you have given us some good ideas, as we undertake this process. We would like to work with you.

Mr. ORTON. Thank you very much, Mr. Chairman.

Mr. CONYERS. We are pleased now to call the chief congressional economist, Dr. Robert Reischauer, Director of CBO, as well as Dr. Susan Irving of GAO. We are delighted to have you both here.

Dr. Reischauer, you are no stranger to this committee and we have appreciated the work that you have given us in terms of putting together CBO with Alice Rivlin back in the 1970's, and I think you have been very helpful, particularly on health care issues. Some of your work there is being used around the country, far beyond the Congress, and it is going to be very important as this debate continues to move forward.

So we welcome you here this morning.

#### **STATEMENT OF ROBERT D. REISCHAUER, DIRECTOR, CONGRESSIONAL BUDGET OFFICE**

Dr. REISCHAUER. Thank you, Mr. Chairman.

It is a pleasure to be here to have an opportunity to discuss the administration's proposal to move to a 2-year budget cycle. I speak with some trepidation after you suggested that all rational people should view biennial budgeting as an unequivocal improvement over the current situation and that those who might have some skepticism about the merit of this proposal were defenders of their turf or willing to see American public policy limp along into the next century. I would not want to associate myself with either of those attributes.

Mr. CONYERS. I know you are not in that category. I know that.

Dr. REISCHAUER. Maybe I am in a third category.

With your permission, I am going to submit my prepared statement for the record. What I will do here is summarize some of the impacts that moving to a biennial budget resolution and biennial appropriations could have.

Moving to a biennial budget resolution would represent a relatively small change from recent practice because budgets have had to conform to constraints contained in multiyear agreements. We had a 2-year agreement in 1987, a 5-year agreement in 1990, and another 5-year agreement in 1993.

Conversion to a 2-year budget resolution thus might be viewed as simply a ratification of the current practice in which the broad outlines of the budget are already established for 2 or more years by some other device.

There are, however, some drawbacks associated with failing to revisit the budget resolution each year. Prime among these would be the very real possibility that the budget in the second year of a biennium would be based on quite unrealistic economic and technical assumptions that would have had to have been made some 33 months before the end of the biennium.

Because of economic and technical uncertainties, the actual outlay and revenue figures in the budget would tend to deviate from those that were included in the budget resolution by even more than is now the case. This would increase the already high level of budgetary confusion that exists in this Nation. It could heighten also the public's cynicism about policymakers' ability to control the budget, and it could put strains on the mechanisms that are used to enforce the budget resolution. On this last point, let me provide an example.

The budget resolution is enforced by using the resolution's economic and technical assumptions to price out bills that are considered by the Congress. It is perfectly possible that a bill would be scored as having no effect on spending under the outdated assumptions that were contained in a budget resolution, whereas, in fact, given a more updated or modern set of technical and economic assumptions, that bill might have some significant positive impact on spending.

This is a problem that we already face, and it has caused a certain number of games to be played. My expectation would be that the latitude for these types of gimmickry and games would be increased substantially in a biennial budget situation.

Biennial budget resolutions also might hinder further efforts to reduce the deficit, because a biennial system is designed to confront budgetary decisions less frequently than is now the case.

As long as large deficits persist, the Congress and the President should face them on an annual basis and decide whether additional cuts are desirable in that year.

Finally, it is worth thinking ahead to the time when policy may not be hamstrung by huge budget deficits. As we bring the budget closer to balance, we may once again want to use it as a short-run fiscal policy tool, just as we did from the end of World War II up through the early 1980's. Of course, a biennial system would make this more difficult because we would, in a sense, be making fiscal policy decisions at 2-year intervals, whereas the economic situation and the appropriateness of a surplus or deficit might shift unexpectedly during that biennium.

Moving to biennial appropriations could potentially have a significant impact on executive branch agencies by allowing them to plan better for the future, manage their programs more efficiently, and evaluate the effectiveness of their efforts. On this score, I think that the National Performance Review and the arguments of the administration are right on the money.

In addition, of course, the recipients of Federal money, such as State and local governments, would be better served by more stability and more advance notice of funding, which would be inherent in a biennial situation.

There is, however, a tradeoff between these advantages and the Congress's current annual control and oversight of programs through the appropriation process and its flexibility in being able to make more frequent changes in the budget.

Agreements on appropriation bills might be more difficult to achieve under a biennial regime because the stakes would be higher than they are today. In addition, biennial appropriations would

probably lead to an increase in the number and size of supplemental appropriations in the nonbudget year.

Not only would programs that are currently prone to supplementals be more likely to require them in a biennial regime, but also the Congress would want to change other programs if priorities suddenly changed—as they did with the end of the cold war or as they often do after an election.

Now, Office of Management and Budget Director Leon Panetta raised the possibility that behavior in the Congress was different now with respect to supplemental appropriations, that there was more restraint being shown, more good behavior. Maybe the genetic structure of the Congress has been changing over time, and one need not be as concerned as one might have been during earlier periods of our budgetary history.

I would be quite skeptical of that and would suggest that the good behavior is largely a reflection of the fact that we have caps on discretionary spending now and an enforcement mechanism. I would expect that some time in our history, we might want to live in a world in which there were no caps, that we would go back to a more flexible system of budgeting because we thought our fiscal house was basically in order. And if that is the case, I would expect the behavior that we have not seen in the past few years to reassert itself. We would see, in fact, a rather confusing situation if we had a biennial budgeting process in which, when that supplemental appropriations came up, even if it were for something very unusual—a natural disaster or a military problem somewhere in the world—it would be viewed as the only vehicle around, and then all of those people who were dissatisfied with the decisions that were made for the biennium in the last go-round would come trotting out with their proposals and their suggestions: We would have, with each year's supplemental, low and behold, a minibudget cycle again that would eat up all of the Congress's time and have all of the problems that we associate with the current system.

It is worth keeping in mind that the Congress does not have to modify the procedures as radically as would be required by a biennial appropriation system to move in the direction that the administration and others are advocating.

We could embrace biennial appropriations selectively for technically predictable and politically stable programs, or we could expand the number of programs that are forward funded, like the education programs. Some of the advantages that are inherent in biennial budgeting could thus be achieved without changing the periodicity of our overall process.

Much of the appeal of biennial budgeting on Capitol Hill of course, relates to the hope that this reform would decrease the time that the Congress devotes to budgeting and increase congressional oversight. But these changes, if they occur, are likely to be modest for two reasons.

First, the increase in the time available for nonbudgetary issues could be devoured by consideration of more supplemental appropriations and other budget policy changes, as I suggested before. Second, even if the time is freed up, that does not necessarily imply that it will be spent on more detailed authorization activity or oversight.

It is worth keeping in mind that two separate types of committees are charged with the responsibility for budgeting and appropriating, on the one hand, and authorizing and oversight, on the other. In addition, at the committee level at least, these functions are separate, and the time devoted to one does not necessarily take time away from the other.

Let me conclude by reiterating that a system of biennial budgeting would make more sense if we were not attempting to reduce the deficit whenever and wherever we can. Even if the deficit problem were behind us, the benefits of biennial budgeting would be realized only if all participants adhered to the system, and there are reasons to expect that such adherence would be very difficult to maintain.

Finally, some of the advantages of the increased certainty and improved management opportunities for agencies that are promised by a biennial system could be realized in the current budget environment with less drastic changes allowing multiyear authorizations and appropriations for certain stable programs that do not generate much in the way of controversy.

That completes my summary statement, and after we have heard from Dr. Irving, I will be glad to answer any questions.

Mr. CONYERS. Well, thank you very much.

[The prepared statement of Dr. Reischauer follows:]



# **CBO TESTIMONY**

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Statement of  
Robert D. Reischauer  
Director  
Congressional Budget Office

before the  
Subcommittee on Legislation and National Security  
Committee on Government Operations  
U.S. House of Representatives

October 7, 1993

## **NOTICE**

This statement is not available for  
public release until it is delivered  
at 10:00 a.m. (EDT), Thursday,  
October 7, 1993.



**CONGRESSIONAL BUDGET OFFICE**  
SECOND AND D STREETS, S.W.  
WASHINGTON, D.C. 20515



Mr. Chairman and Members of the Subcommittee, thank you for inviting me to testify on the Administration's proposal to move to a two-year budget cycle. Vice President Gore's National Performance Review (NPR) has recommended that the Congress establish biennial budget resolutions and appropriations and multiyear authorizations. Under this proposal, the first biennium would begin October 1, 1996, covering fiscal years 1997 and 1998. The President would also submit a full budget only every two years; the first biennial budget would be submitted in February 1996. In nonbudget years, the President would submit amendments only in exceptional circumstances.

My testimony will make the following points in evaluating the effects of this proposal:

- o Because budgets have had to conform to requirements contained in multiyear agreements, biennial budget resolutions represent a relatively small change from recent practice. But they could increase the likelihood that budget decisions would be based on less accurate information, and they may hurt efforts to reduce the deficit.
- o Biennial appropriations should be viewed primarily as a trade-off between the Congress's flexibility to make frequent changes in the budget and the ability of executive branch agencies and federal aid

recipients to plan for the future and manage programs. Other factors, however, call into question whether biennial appropriations would yield the benefits that their proponents cite.

- o Biennial budgeting is proposed as a reform that will decrease the time the Congress devotes to budgeting and increase Congressional oversight. These changes, if they occur, are likely to be slight.

## BIENNIAL BUDGET RESOLUTIONS

Under all proposals for biennial budgeting, the budget resolution would be adopted every other year. Since 1987, the Congress and the President have experimented with multiyear budget agreements--for two years in 1987, and for five years in 1990 and again in 1993 (the 1990 agreement was revised after three years). In an era of multiyear agreements and budget summits, adopting budget resolutions every other year should not represent a substantial change since the broad outlines of the budget are already established for two or more years. In recent practice, the budget resolution in the year or two following a budget agreement usually restates the policies underlying the multiyear agreement. A conversion to a two-year budget resolution would serve in this sense to ratify current practice.

Failing to revisit the budget resolution each year, however, has certain drawbacks. Putting a requirement for biennial budget resolutions into law would make it more likely that budget decisions would be based on unrealistic economic and technical assumptions. Generally speaking, forecast errors become larger as projections extend further into the future. Even in the current annual process, forecasters are required to project changes in the economy and the budget 21 months before the end of the fiscal year; a biennial budget resolution would increase this period to 33 months for the second fiscal year of the biennium.

Second, problems may occur in enforcing the resolution later. The budgetary effects of a bill are currently estimated using the economic and technical assumptions underlying the budget resolution. As those assumptions became more out of date, the enforcement process would be strained because bills that would increase spending under updated assumptions might have no cost under the assumptions of the budget resolution.

Biennial budget resolutions also may actually hinder further efforts to reduce the deficit, because a biennial system is designed to confront budget decisions less frequently. As long as large deficits persist, the Congress and the President should face them on an annual basis and decide whether additional action is warranted in that year. Biennial budgeting, however, removes the presumption of annual review, which seems undesirable in a world with \$200

billion deficits. It is certainly true that the President and the Congress have not opted to attack the deficit every year, but it is also true that major deficit reduction efforts have not followed a neat two-year cycle. Under the NPR proposal, the normal budget resolution and reconciliation procedures would not have been available this year. The Congress might have been able to overcome this impediment, but given the difficulty of enacting deficit reduction legislation under the best of circumstances, additional hurdles may be unwise.

If and when the deficit has been brought under control, the Congress may want to return to using the budget resolution as a fiscal policy tool. The Congress was active in setting such policy in the 1970s and early 1980s, but over the past decade attention has focused on the deficit. A biennial budget would make it more difficult for the budget resolution to be used once again to set fiscal policy.

## BIENNIAL APPROPRIATIONS

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Any benefits of biennial budget resolutions would be confined to the halls of Congress. Biennial appropriations, however, could potentially allow federal government agencies and recipients of federal aid to manage their resources better. For this reason, some proponents of biennial budget resolutions (like the National Performance Review) advocate that such resolutions be coupled with biennial

appropriations. Others have advocated two-year budgets with annual appropriations.

Decisions on appropriations are now made annually; that is, appropriation bills covering virtually all discretionary budget accounts are enacted each year. An annual process is not the only available choice, but it is easier to identify a poor timing rule than an optimal one. For example, a quarterly process would generate a tremendous work load in both the executive and the legislative branch and would create continuous uncertainty about government policies. A process in which appropriations were made much less often--such as only every five years--would result in frequent revisions in the budget as events changed. In between these two cases are the current annual process and a biennial appropriation process, in which appropriation bills would be considered every two years.

Biennial appropriations are best viewed as a trade-off between the ability of agencies to manage programs and recipients of federal aid to plan for the future, on the one hand, and the ability of the Congress to control the budget and to make more frequent changes in it, on the other.

Without question, the main beneficiaries of biennial budgeting would be executive branch agencies and recipients of federal assistance. Executive agencies would benefit because the NPR's proposal for biennial appropriations is designed



primarily to enable managers to better focus their time and attention on managing their programs. The NPR report argues that agency managers are forced each year to spend a great deal of time justifying programs that are routinely funded at stable levels and could be considered less frequently. Biennial budgets would allow agency managers to spend more time evaluating the effectiveness of programs and doing long-range planning. In addition, contracts between the federal government and private contractors might be negotiated at terms more favorable to the government if more stable funding could be guaranteed.

Furthermore, states, local governments, and other recipients of federal money would be better able to plan for the future under a biennial system. Currently, recipients of federal aid must in many cases face annual questions concerning how much money they will receive in a given year, which is a major impediment to planning state and local budgets. A biennial system would decrease this uncertainty.

Even though the Congress would consider appropriations comprehensively in only one year, the improvements in management and planning for agencies in a biennial system would probably be accompanied by an increase in the number and size of supplemental appropriations enacted by the Congress in the nonbudget year. The programs that are currently prone to supplemental appropriations--emergencies such as disaster assistance, programs tied to changes in the economy,

and hard-to-predict foreign assistance programs--would probably be even more likely to require supplemental funding in a biennial regime. In addition, the Congress might seek to revise budgets for other programs in the nonbudget year for policy reasons. For example, recent changes in the world might have resulted in reductions in the defense budget in nonbudget years even if a biennial system had been in place. To the extent that the time and attention of the Congress were diverted away from nonbudgetary issues to supplemental appropriations and other changes in the budget, the benefits of biennial budgeting would be reduced accordingly. If the biennial process were not adhered to, the result would be to substitute for the current process one with biennial appropriations and routine omnibus supplemental budget bills in the second year. That is almost certainly not an improvement.

If a biennial system were followed, the benefits that would accrue to agencies would come at the expense of the Congress's current annual control and oversight of programs through the appropriation process. Some Members of Congress might view that as a shift of power from the legislative to the executive branch. The stakes would increase in the appropriation process as well; agreements on appropriation bills, both within the Congress and between the Congress and the President, might be more difficult to achieve under a biennial regime.

The states' experience offers some support for the contention that biennial systems are harder to live up to than to design. States have tended to move away from biennial budgeting in recent years--44 states followed the practice in 1940, compared with only 19 today. One reason for the movement away from biennial systems has been the increased sensitivity of state budgets to economic cycles, largely because states are relying more on the income tax as a revenue source. Large (and unanticipated) budget deficits have made it necessary for states to revise their budgets in the second year of the biennium. The regularity of these revisions has led some states to convert formally to annual budgeting, which was the form that they were following in a de facto manner.

If the Congress does not wish to change as radically as biennial appropriations would require, it could embrace biennial appropriations selectively--for technically predictable and politically stable programs, for example. In fact, the Congress has decided that it is desirable to provide more planning certainty for some programs funded in the appropriation process; for example, it has provided multiyear funding for defense procurement and forward funding for education programs. Other programs for which similar consensus exists, and that benefit from long-term planning, might also have some annual controls removed without embracing biennial appropriations in their entirety.

Annual authorizations are inconsistent with biennial appropriations, as is reflected in the NPR recommendation that authorizations cover more than one year. For many programs, multiyear authorizations are already the norm. There are few obvious budgetary reasons for annual authorizations, but the Congress may pursue them for other reasons--for example, to enable committees to exercise more frequent oversight of a particular program.

#### EFFECT OF BIENNIAL BUDGETING ON CONGRESSIONAL WORK LOAD

Agencies currently spend a lot of time on the budget, but the budget claims substantial Congressional time and attention as well. Furthermore, the explosion of the budget deficit and the establishment of processes designed to assist in bringing that deficit under control have kept the budget near the top of the Congressional agenda. Increasingly, Members of Congress and Congressional committees have faced constraints imposed by the budget process at every turn. For this reason, their frustration with the budget process is understandable, as is their desire to see less emphasis placed on budgeting. Indeed, many people view the major benefit of biennial budgeting to be that it would increase time spent on other legislative activities, including oversight.

A biennial process might have less benefit in this area than advertised, however, for two main reasons. First, the increases in time available rest on the

assumption that the biennial timetable is adhered to, but the likelihood of more supplemental appropriations and other changes in budget policy in nonbudget years could eat into that time. Second, it is not clear how much the process of making budget allocations has crowded out authorizing legislation and oversight. The two types of activities tend to be carried out by two separate types of committees: budgeting tends to be the province of the budget and appropriations committees, and authorization/oversight is the responsibility of authorizing committees. In the House, where appropriations is an exclusive assignment, time available for authorizations and oversight would increase only to the extent that the current budget timetable interfered with the work of the authorizing committees or that oversight was exercised by the appropriations committees in nonbudget years. In the Senate, however, many Members serve on both types of committees, and appropriating every two years would give those Senators more time to spend on authorizations.

## OTHER CONSIDERATIONS

If the Congress is to embrace biennial budgeting, it will need to address various technical issues. For example, it will need to ensure that the biennial system conforms to other provisions of existing budget law, such as the enforcement procedures included in the Omnibus Budget Reconciliation Act of 1993. Two such technical issues merit specific mention: the length of time for which



appropriations would be available, and the timing of the budget and nonbudget years under a biennial system.

### Availability of Funds

The system of biennial appropriations, as proposed by the NPR, focuses primarily on the frequency of budget decisions. Another issue, however, involves the length of time for which appropriations will be made available to agencies. The Congress could take one of two approaches. First, decisions on appropriations could be made only once every two years but could provide funds for each of the two ensuing fiscal years. Thus, for either year, agencies would have only 12 months in which to obligate funds unless otherwise specified in law. Second, the budget period for which funds are available to agencies could be changed from a fiscal year to a biennium, meaning that funds could automatically be carried over from the first to the second year of the budget period. This second option could give agencies more flexibility in spending money, if it were coupled with other proposed changes, such as relying less on ceilings for full-time-equivalent positions and relaxing rules on apportionments or allotments. Removing these controls would decrease the detailed influence (what some would call micromanagement) of the Congress and the Office of Management and Budget over agency spending.

### Timing of Budget Actions

The NPR report recommends that the budget be prepared during the even-numbered year, beginning in 1996. During the second session of the 104th Congress, the President would submit a budget covering fiscal years 1997 and 1998. The Congress would respond by enacting a budget resolution and appropriation bills that set fiscal policy for the same fiscal years (that is, for the 105th Congress). This is not the only choice; many past proposals have recommended that the budget resolution and appropriations be enacted in the odd-numbered year.

The apparent goal of the timing embraced by the NPR is to prevent a new President from being required to submit a budget almost immediately upon taking office, as happened this year. Because the Budget Enforcement Act of 1990 changed the date of the budget submission from early January to early February, the Bush Administration was not required to submit a budget before leaving office. The Clinton Administration was thus the first in recent history that was technically required to submit a full budget within two weeks of the inauguration. In the past, new Presidents who desired to make budget changes had not submitted full budgets but had forwarded specific amendments to the Congress. Under the timing included in the NPR proposal, a new President would have more than a year after taking office before being required to submit the first budget.

This timing, however, might make it more likely that the biennial process would revert to an annual one, because the election of a new Congress or a new President often signals a change in policy direction. The largest recent policy shifts occurred after the 1980 and 1992 elections. Under this circumstance, it may be unrealistic to expect that a President or a Congress would be willing to wait longer than one year to begin taking action in response to the perceived desires of the electorate for change. If they were unwilling to wait, the biennial timetable might well be ignored, particularly if (as occurred after the 1992 election) the Congress has many new Members. Of course, the biennial timetable might also be ignored periodically or routinely under the alternative timetable. If the budget resolution and appropriations were done in odd-numbered years, the Congress or the President might, for political reasons, seek to revise the budget during the year just before Congressional or Presidential elections.

## CONCLUSION

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Biennial budgeting may, as discussed above, hamper efforts to reduce the deficit. Once the deficit problem is behind us, biennial budgeting may be beneficial, but only if all participants adhere to the system. If they do, some of the improvements--primarily increased certainty and improved management opportunities for agencies and state and local governments--may be worth the costs of having less frequent Congressional attention to budget policy. But if the

Congress does not believe that the biennial budgeting system will hold--that is, if the system will revert to its counterpart annual system because of the necessity or desire to make budget policy annually--then disrupting the current system by making such a change would probably yield few benefits.



Mr. CONYERS. I didn't expect your direction to be as much against the multiyear appropriations as I think I heard you make them. You gave us a little room for hope, so I am going to hope that we can do something.

I come to this subject, Dr. Reischauer, with the fixed view, we have got to do something better than this. This seems like a rational approach, and when you raise all of these pitfalls and possibilities that it really isn't as efficient an idea as I originally thought—

Dr. REISCHAUER. Well, it is not a panacea, I think. What I am trying to do, and I might have overemphasized my position, is to suggest that this is not going to be the solution to the controversy and time consumption, which are major problems with our policy process right now.

In certain respects, it would have advantages. In others, it would have disadvantages. There are ways in which both the administration and the Congress could put their own houses in order, so to speak, and simplify things without changing the budget process.

Mr. CONYERS. Well, I don't usually fling the corporate model around here as something to be emulated, but for goodness sake, corporations are running on 2 year, 5 year, 10 year frames of reference. I get the impression that they are working on a more long-term projection than we are, and it is that perception that bothers me, that we are still caught into this tradition of authorizing and appropriating.

Suppose somebody forgot to invent the distinction between these authorizing and appropriating committees and we had one committee doing it all? Suppose we took the corporate models that look a lot longer down the road. Wouldn't we be better off if we tried to move in that direction?

Dr. REISCHAUER. Well, I think your description of the corporate model is both right and wrong. Corporations do long-run planning for capital spending, for strategic planning purposes, but at the same time they are very nimble in the short run. That way, if market conditions deteriorate this month, for example, they begin laying people off immediately. They begin slashing costs one way or another.

We do not do that. We give a wad of money to government departments and ask them, over the course of the next year, to spend that money to achieve some objectives. Often, the objectives are poorly defined or conflict with one another, and there is no feedback mechanism from a market.

Certainly, you know that coordination between the authorizing and appropriation process—more coordination, better coordination, would lead, I think, to more rational policy decisions. Beyond saying that though, it is probably not good for my health to discuss that topic.

Mr. CONYERS. Well, I was going to save questions until after Dr. Irving had concluded. However, Dr. Irving, is the controlling idea in your submitted paper the following: We believe the multiyear fiscal policy agreements and multiyear authorizations make a great deal of sense, but they do not require changing the appropriations decision cycle from annual to biennial?

Dr. IRVING. Yes, Mr. Chairman, that would be correct.

Mr. CONYERS. OK. Would you defend that statement, please?

**STATEMENT OF SUSAN IRVING, ASSOCIATE DIRECTOR,  
BUDGET ISSUES, GENERAL ACCOUNTING OFFICE**

Dr. IRVING. Yes, sir. We share your concern and Dr. Reischauer's concern that the Federal deficit today is the greatest impediment to our current and future economic health, and we believe that past experience has shown that multiyear agreements by the Congress and the President on a fiscal policy path, about bringing that deficit down, make sense and create a framework within which individual Congresses can respond to changing priorities.

We believe that path should be designed to bring the deficit to balance or—let me be an optimist—slight surplus early in the next decade, because we think that is critical for our economic health.

However, experiences with both OBRA 1990 and OBRA 1993 show you don't need to change the timing of appropriations decisions to comply with those multiyear agreements. The Congress already uses multiyear authorizations in a great deal of the nondefense world, that is, thinking about the basic structure of programs and then changing where they think changes fit.

Appropriations, it seems to me, are something quite different. People who advocate biennial appropriations are really advocating changing the timing of decisions, but too often the debate sounds as though they are talking about changing how long an agency may use the money. Congress has shown it is quite able to provide multiyear money—forward funding, advanced funding where it thinks the structure of the program demands it. I guess that we would share Mr. Spratt's observation that when money is at stake when you are looking at a program, there is a certain additional clout vis-a-vis that program. You need not decide to change the way in which you exercise your power of the purse in order to provide flexibility in terms of length of availability of money.

Mr. CONYERS. Thank you very much.

[The prepared statement of Dr. Irving follows:]

United States General Accounting Office

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GAO

Testimony

Before the Subcommittee on Legislation and National Security,  
Committee on Government Operations  
House of Representatives

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BUDGET POLICY

Biennial Budgeting for the  
Federal Government

Statement of Susan J. Irving  
Associate Director, Budget Issues  
Accounting and Information Management Division



Mr. Chairman and Members of the Subcommittee:

I am pleased to be here to discuss proposals by the National Performance Review (NPR) to institute biennial budgets and appropriations. Certainly everyone involved in the budget process shares some frustration with it. The public considers it confusing. Executive branch agencies perceive the process as extremely burdensome and time-consuming. Members of the Congress say the process seems lengthy, with too many votes on authorizations, budget resolution, reconciliation, appropriations, and debt limit. And too often the results are not what was expected or hoped for.

Even though there is virtually universal agreement that the current process has problems, changes must be carefully considered. The current process is, in part, the result of many changes designed to address previous problems. The challenge is to design solutions to existing problems without creating new ones. Therefore, proposals for biennial budgets and biennial appropriations must be considered in the context of the entire budget process.

As you know, our concern over the size and persistence of the federal deficit--and the damage we believe it does to the current and future economic health of the nation--has led us to advocate

that the Congress and the President agree on a long-term fiscal policy path that results in budget balance or a surplus in a decade. This agreement would set the framework within which debates over the composition of the budget would take place. Rather than being a set of fixed deficit targets, however, it should consist of control mechanisms and discretionary spending caps, as in the Budget Enforcement Act of 1990 (BEA) and the 1993 Omnibus Budget Reconciliation Act.

Biennial budgeting as a mechanism to achieve a longer term budget agreement is not a new idea. The first biennial budgeting bill was introduced in 1977 by former Congressman Panetta, now the Director of the Office of Management and Budget. Numerous other biennial budget bills have been introduced since then. In addition, both former Presidents Reagan and Bush called for biennial budgeting.

The National Performance Review has proposed that the entire budget cycle be changed from annual to biennial. Under this system, the President would submit budgets every 2 years. Authorizations would be for 2 years or longer. Budget resolutions would be adopted every 2 years and appropriations enacted every 2 years. The NPR summary report is silent on the question of reconciliation instructions, but normally they are used only when needed and the actions executing them are often permanent.



We believe that this need not be seen as an all-or-nothing proposal. Budget agreements, authorizations, budget resolutions, and appropriations need not cover the same time period.

We have previously supported the use of multiyear authorizations. There seems little reason to reexamine and reauthorize programs more often than they might actually be changed. Furthermore, multiyear authorizations help both the Congress and the executive branch by providing a longer term perspective within which a program may operate and appropriations be determined. This is the normal practice for most of the non-defense portion of the budget.

We agree with the NPR that a 2-year budget resolution makes sense. In a June 24, 1993, statement to the Joint Committee on the Organization of the Congress, we suggested 2-year binding budget resolutions be used with 2-year reconciliation instructions. Such a change would reduce the burden on the Congress and provide more stability for congressional committee planning without unduly binding future Congresses or reducing congressional oversight.

As I noted earlier, the question of biennial appropriations can be separated from biennial budget resolutions. The two raise quite different questions. Let me turn now more specifically to that issue. I will talk briefly about how biennial budgeting

fits into the overall NPR proposals, about state experiences with biennial versus annual budgets, and then come back to the idea of biennial appropriations in the federal government.

#### OTHER NATIONAL PERFORMANCE REVIEW

#### PROPOSALS RAISE QUESTIONS ABOUT

#### IMPLEMENTING BIENNIAL BUDGETING

The NPR recommendation on biennial budgeting is one of several proposals to change the federal budget process. These proposals include the creation of an executive budget resolution, changing the apportionment process, and eliminating the use of full-time equivalent (FTE) ceilings as a means of budgetary control.

The NPR recommendations for changing the budget process, however, must be considered in the context of NPR's many other proposals to change the way the federal government operates. Although these proposals do not deal specifically with the budget process, they affect the ability to forecast future budgeting needs based on past experience. Proposals to reduce federal employment, to close or realign agency field offices, to eliminate federal programs, to improve financial management, and to streamline government procurement will all have some impact on and/or be affected by the budget.

We have previously reported that if the Congress decides to

implement a 2-year budget at the appropriation account level, it should proceed cautiously by testing it on a limited basis. Good candidates for a limited test would be organizations or programs which are relatively stable and for which there are no obvious impediments. Impediments would be activities that hamper the forecasting of budgetary needs for the 2-year period, such as a major reorganization or major changes in financial management systems. The very magnitude of the changes the NPR envisioned raises questions about whether a shift to biennial appropriations could or should be made at the same time. The Congress needs to consider the relationship between massive organizational change--such as realigning field offices or functions or combining functions--and appropriations cycles.

STATE EXPERIENCES WITH BIENNIAL BUDGETING  
MAY BE RELEVANT TO THE FEDERAL GOVERNMENT

Supporters of biennial budgeting, and the NPR summary report, argue that a biennial budget cycle would reduce the amount of time spent on repetitious, detailed budget preparations, thus allowing more time for program evaluation and oversight. Advocates also point to the experience of individual states.

Overall, however, the states present a mixed picture. Although 19 states currently have a biennial budget cycle, 8 of those states have biennial legislative cycles and hence could not have

an annual budget cycle. Of the 42 states with annual legislative cycles, 11 have biennial budgets. Even these do not present a uniform picture. Nine of these adopt two 1-year budgets every other year, while 2 adopt a single budget for the biennium.

Translating state budget laws, practices, and experiences to the federal level is always difficult. As we noted in our review of state balanced budget practices,<sup>1</sup> state budgets fill a different role, may be sensitive to different outside pressures, and are otherwise not directly comparable. In addition, governors often have more unilateral power over spending than does a President.

However, even with those caveats, the state experience may offer some insights for your deliberations. First, and perhaps most significant, the trend in state budget process changes has been away from biennial budgeting. In a 1987 study<sup>2</sup> we found that of the 31 states with annual budget cycles, 24 at one time used biennial budgeting. During the 20-year period from 1968 to 1987, 15 states changed budget cycles; 12 moved from biennial to annual while only 3 moved from annual to biennial. According to representatives from the 12 states that changed to annual budgeting, reasons for doing so included

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<sup>1</sup>Balanced Budget Requirements: State Experiences and Implications for the Federal Government (GAO/AFMD-93-58BR, March 26, 1993).

<sup>2</sup>Budget Issues: Current Status and Recent Trends of State Biennial and Annual Budgeting (GAO/AFMD-87-53FS, July 15, 1987).

- gaining greater accuracy in estimating revenues and financial needs,
- improving legislative control over budgetary matters, and
- being better able to respond to rapid changes in revenues and program needs.

In analyzing the state experiences for lessons relevant to the federal government, the second significant piece of information is that most states with biennial budgets are small and medium sized. Of the 10 largest states in terms of expenditures, Ohio is the only one with an annual legislative cycle and a biennial budget.

THE FEDERAL GOVERNMENT'S ANNUAL  
BUDGET CYCLE PERMITS FLEXIBLE PERIODS  
OF FUND AVAILABILITY

In considering whether the federal government should shift to a biennial budget, it is important to recognize a very important distinction between how often budget decisions are made and how long the money provided for agency use is available. Biennial budgeting proposals seek to change the frequency with which budget decisions are made--from annual budget decisions to biennial ones. Too often, however, the idea is discussed as though it were necessary to change the frequency of budgeting decisions in order to change the length of time funds are



available.

However, as you know, this is a misconception. The bulk of the current federal budget is not made up of annual appropriations of 1-year monies. Not all funds expire September 30 of every year. Because budget decisions about mandatory programs and entitlements are not made on an annual basis, the debate about annual versus biennial appropriations deals with less than half of the budget. Annual appropriations apply to that portion of the budget known as discretionary spending--about 39 percent of federal outlays in fiscal year 1992.

Even within that 39 percent of the budget on an annual budget cycle, not all appropriations were for 1-year funds. The Congress has routinely provided multiple-year or no-year appropriations for accounts or for projects within accounts when it seemed to make sense to do so. Indeed, about two-thirds of the accounts on an annual appropriation cycle contained some multiple-year or no-year funds. For these accounts, some prior year and/or current year authority remained available for obligation beyond September 30, 1992, without further congressional action.

The federal government has had some experience with biennial budgets. The 1986 Defense Authorization Act directed the Department of Defense (DOD) to submit a biennial budget for

fiscal years 1988 and 1989 and every 2 years thereafter. DOD submitted 2-year budgets for fiscal years 1988 and 1989, 1990 and 1991, and 1992 and 1993. However, the authorization committees have chosen not to approve a full 2-year budget, and the appropriation committees have not provided appropriations for the second year.

#### POTENTIAL EFFECTS OF BIENNIAL

#### APPROPRIATIONS ON THE FEDERAL GOVERNMENT

For agency officials--especially agency budget officers--the arguments for biennial budgeting may seem quite strong. Currently, these officials spend several months every year preparing a "from the ground up" budget with justification. Much of this work is repetitious. In contrast, requests for supplemental appropriations are handled on an exception basis. Only those agencies requesting supplemental appropriations prepare and present justifications, and those justifications are less complex than those for the annual budget. If, under a biennial appropriations process, the "off-year" updates, amendments, or adjustments were treated like supplemental appropriations, the savings in agency time could be significant, even if the Congress required--as seems reasonable--that agencies submit financial and spending reports every year.

Would agency time and energy be shifted to improved financial

management or better program evaluation? I suspect that would depend on the President, the agency's leadership, and on what the Congress demanded of the agencies.

Regardless of the potential benefits to agencies, the decision on biennial budgeting must depend on the Congress' choice about how it wishes to exercise its constitutional authority over appropriations and its oversight functions. Annual appropriations have long been a basic means of exerting and enforcing congressional policy. A 2-year appropriation cycle could change that control.

While biennial budgeting might allow for more oversight and other legislative initiatives, it has some potential drawbacks. It could lessen congressional influence or control over program and spending matters, largely because the budget and appropriation processes would afford fewer scheduled opportunities to affect agency programs and budgets.

Also, some of the expected savings in agency staff budget formulation may be achieved if another NPR recommendation--the executive budget resolution--is effectively implemented. This recommendation, which can be implemented without legislative action, is designed to reduce the number of budget alternatives and justifications an agency must produce by providing each agency with fixed targets to use in preparing its budget

submission.

WHEN SHOULD A BIENNIAL BUDGET BEGIN?

The Congress needs to address the question of timing if it wishes to change to a biennial appropriation cycle for all or most agencies and programs. The NPR suggests that the first biennium begin October 1, 1996, to cover fiscal years 1997 and 1998. After that, bienniums would begin October 1 of each even numbered year. According to the summary report, in off-years the President would submit only amendments for exceptional areas of concern, emergencies, or other unforeseen circumstances. Under this approach, a newly elected President and Congress could be faced with operating under the previously enacted budget for approximately 21 months.

In previous testimony, we said that if the Congress decided to change to a biennial budget cycle, concentrating budget activity in the first session of each Congress and oversight in the second session makes the most sense. Under this approach, the biennium would begin October 1 of odd-numbered years, and thus budgets would be adopted during the first year of a President's term and at the start of each new Congress. This would prevent a situation in which a new Congress and a new President would face the prospect of operating for nearly 2 years under an earlier approved budget. Otherwise, the pressure for major changes in

the off-year would be great.

### CONCLUSIONS

We believe that multi-year fiscal policy agreements and multi-year authorizations make a great deal of sense, but they do not require changing the appropriations decision cycle from annual to biennial.

While biennial appropriations could save time for agencies, they could result in a shift in congressional control and oversight. Proposals to change the process should be viewed partly in the context of their effect on the relative balance of power in this debate.

While budgeting always involves forecasting (an inherently uncertain business), the longer the period of the forecast the more the uncertainty. Increased difficulty in forecasting was one of the primary reasons states gave for shifting from biennial to annual cycles. Dramatic changes in program design or agency structure, such as some of the NPR proposals, will make budget forecasting more difficult. Moving from an annual to a biennial cycle at the same time may not be wise, given that the program changes are likely to create the need for major budgeting changes in the second year of a biennium. If this happens, biennial budgets would exist only in theory.



Biennial appropriations would be neither the end of congressional control nor the solution to many budget problems. The questions for the Congress are, how does it want to exercise its constitutional authority over appropriations and in what forum will it conduct its oversight responsibilities?

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Mr. Chairman, this concludes my prepared remarks. I would be happy to answer any questions you or the other Subcommittee Members may have at this time.

Mr. CONYERS. Bill Clinger.

Mr. CLINGER. I thank both our witnesses for your testimony. I guess the concern I had expressed earlier to Leon Panetta I would have addressed to you, and that is that if we continue to have multiyear authorization and continue to have single-year appropriations, we are going to continue to have that tension that was so apparent during our transportation debate of a month or so ago.

Isn't there some argument that we should get those closer in synch so that we don't create the kind of political mine field that that engendered?

Dr. REISCHAUER. The answer is yes, but I am not sure that biennial budgeting is the solution there. What you have is——

Mr. CLINGER. From your organization?

Dr. REISCHAUER [continuing]. Different priorities within different parts of the Congress. As Dr. Irving pointed out, there are many areas in which multiyear authorizations are the norm, and for areas in which priorities are not changing quickly, that obviously provides a degree of stability and makes more sense. It also then provides more time for those authorization committees to consider overseeing the programs that they have created.

Dr. IRVING. I don't think that changing the appropriations cycle is going to eliminate the basic conflict over priorities and structure, which it seems to me was really the cause of that particular dispute this year. Indeed, two-thirds of the annually appropriated accounts today contain some multiyear money. Thus, if the appropriations and authorization committee found themselves in more agreement about priorities, it is not impossible under the current system—and indeed it has been proven to be quite frequent—for the Appropriations Subcommittee to recommend to the Congress that certain programs be funded with multiyear money.

Mr. CLINGER. But you could do without a biennial budget, is what you are saying.

Dr. IRVING. It is hard to argue that a biennial budget would be evil. It is just hard to work up any belief that it would solve any major problems. And it seems to me that to go through the trauma of changing things for something that will not solve your problems is a fair amount of unnecessary effort.

Mr. CLINGER. I have seen the problems that—where you have so many Federal programs that evolve to local communities, in other words, shared funding and that sort of thing, where they find themselves unable to really do much planning because they are not sure what the annual appropriations process is going to do for them.

It is all well and good to have an authorization program that says this is our policy, but unless you can plan on having the money, it is a little difficult to do that. It seems to me that a biennial budget would at least fix that over a 2-year cycle and give them 1 more year of certainty of where they were going to be.

Dr. REISCHAUER. But the real solution to that is to adopt what we have done in the education area, which is to forward fund programs. For example, you provide moneys in the 1994 budget for grants for educational establishments for fiscal year 1995; then they have an appropriate length of time every year to make those decisions.

Dr. IRVING. I have nothing to add to that.

Mr. CLINGER. Thank you.

Mr. CONYERS. Well, John Spratt, I hope you are feeling better about the way this hearing is turning out.

Mr. SPRATT. Just a couple of quick questions so we can let you go before we leave for the vote.

As I see it, what Mr. Panetta laid out in the way of benefits for the executive branch were significant, freeing up their time, which is inordinate, dealing with this budget cycle, which seems to get longer and longer and more consuming every year, has precluded attention to execution of programs, management, and to the development of other financial systems.

Is that a correct impression? Do you agree with that? Both of you.

Dr. REISCHAUER. Yes. I think there are real advantages from the standpoint of the executive branch and for agency and program managers.

Dr. IRVING. I think there are clear advantages for the executive branch. On the other hand, I would like to point out that one of the National Performance Review recommendations is that the President and the Director of OMB be clearer in advance with the agencies what their target number is going to be. To the extent that the agencies are guessing what the President wants, some amount of their preparation burden can be solved within the executive branch.

Mr. SPRATT. Second point. Dr. Reischauer, as you know, we have made a very cautious approach to the problem of budgeting entitlements this year, for the first time in a sense. We have got at least a baseline fix in the budget we are going to—we have pledged to try to track that baseline.

The President is committed to giving us a variance analysis and making recommendations for what to do about overtures. The provisions in the Executive order in the bill that we passed here in the House were a little fuzzy as to whether or not he had to wipe out the overage for the prior fiscal year when he reported it. He was fairly emphatic about dealing with the variance in the out-years if it was off track.

If we allow the budget to go into a biennial cycle, then it will be 2 years before we come around to this variance analysis and this reconciliation, does that concern you? Does that concern you because we have had such difficulty in predictability and getting an advance on entitlement spending?

Dr. REISCHAUER. Well, the adjustment would obviously be larger than would otherwise be the case, and it is more difficult for a political body to make big changes than small changes. So I think your concern is well-founded.

But we should also remember that the procedure that was put in place by the Executive order, and even the procedure that was passed by the House of Representatives, did not require adjustments.

Basically, what it did was shine a spotlight on the entitlement area to say that if the entitlement numbers are coming out differently from what we had planned, maybe we should do something about it. Then the President had the choice of recommending ad-

justments to come down to the planned level in full or in part, or of saying, "We are not going to do anything about it."

Mr. SPRATT. Given the fact they didn't compel us to do anything, all the more reason that we should have to address it every year then.

Dr. REISCHAUER. The Gramm-Rudman-Hollings era showed that if the adjustments get too large, we change the process under which we operate rather than taking appropriate steps.

Mr. SPRATT. Thank you both for excellent testimony and for casting a different light on this idea.

Mr. CONYERS. We are grateful to you. You are disabusing me of a simple idea that had great promise. The President and Director of OMB and a lot of Members are all for it, and then you two wander up here and send us back to square one again, and in good faith to be sure, but I wasn't looking at this as a silver bullet, but it has sounded so reasonable since Leon introduced the notion back in the 1970's.

So we thank you very much for coming. The panel with Dr. Mann of the Brookings Institution and Dr. Snell of the National Conference of State Legislatures will resume as soon as we dispose of the vote now pending on the floor.

[Recess taken.]

Mr. CONYERS. We are delighted to have Dr. Mann, director, governmental studies at Brookings, and Ron Snell director of the fiscal affairs program for the National Conference of State Legislatures.

Both your extensive backgrounds highly qualify you for the discussion that we have been having this morning. I notice that you have been at the hearing, so feel free to comment on matters raised by our earlier witnesses.

Good morning.

#### **STATEMENT OF THOMAS E. MANN, THE BROOKINGS INSTITUTION**

Dr. MANN. Good morning. Thank you very much, Mr. Chairman. I think you will soon see that I share with some of the previous witnesses an attraction to the goals and aspirations of Mr. Panetta on his proposal for biennial budgeting, but I have a bit of skepticism as to whether those objectives would be achieved. We ought to keep front and center the objectives rather than the means of accomplishing them, because we may end up finding other ways of achieving those objectives.

But before saying anything about biennial budgeting, I want to indicate my strong support for the overall thrust of the Vice President's National Performance Review. I think it is a first-rate report.

I do believe that government performance has been hampered by both administrative and congressional micromanagement. The accumulation of rules and regulations restricting the behavior of agency officials are often individually defensible, but they have over time weakened the capacity of government to serve the people. I hope that over the next months and years, the Congress will look favorably on the larger objectives of the Vice President's report; this is a wonderful time to try to begin to renegotiate the terms under which the President and the Congress control the agencies.



I think it is time to step back from the arms race of the last decade in which Congress has struggled for political control and, in so doing, hampered the ability of the government to perform. At the same time, I have to tell you, I am discouraged that biennial budgeting is the first of the proposals in the National Performance Review to be taken up in a serious way by the Congress.

It is not that I don't see compelling arguments for trying to reduce the amount of time and energy devoted to budgeting. I am not unalterably opposed to biennial budgeting but I think there are reasons to doubt whether the intended benefits of this reform would be realized.

All of us, and you in particular, are frustrated by the fiscalization of all policy debates in America over the last 15 years. Every time we try to talk about something substantively, it is transformed into a budgetary debate.

That is one of the frustrations of the authorizers who have seen the action shift to the appropriators as well as to the revenue committees.

Now, the natural temptation is to blame that on the process and to figure, what we have to do is reform the process and that will take care of the problem. That is, budget issues overwhelm the system because of cumbersome, timeconsuming procedures in both branches.

I think that diagnosis is wrong. Budget deficits and the lack of consensus among politicians in the country are responsible for the problems that we see at both ends of Pennsylvania Avenue. And therefore, simplifying the process offers no real promise or likelihood that you are going to do away with these problems without some massive change in our public finance.

It is not that process changes are always irrelevant. They are not. But whatever changes you make have to be consistent with the underlying political realities. They are the forces that are driving the unpleasant developments that you see at both ends of Pennsylvania Avenue.

I think the case for biennial budgeting is familiar, clear and on the surface, compelling, and Mr. Panetta has laid those arguments out very effectively. I won't repeat them here. All I want to suggest is that each of those objectives has merit, but there is no reason to believe they would be byproducts of biennial budgeting.

One that has already been discussed by Dr. Reischauer, both forecasting errors and fiscal pressures could easily transform what are now seen as midcycle adjustments through supplementals into wholesale budgeting exercises.

Another problem. The executive branch anticipates substantial savings if they only have to go through the budgeting exercise every other year instead of every year. That isn't necessarily the case. That staff time could be taken up by the intensified congressional oversight that many of you anticipate.

Mr. Panetta hopes congressional micromanagement will decline if you only have one crack every 2 years, but politics being what it is, I think just the opposite may happen. Members, knowing they won't have an opportunity to participate the next year, may well hedge their bets and build in more earmarks and restrictions every 2 years.



Now, my colleague Norman Ornstein, and I, as codirectors of the renewing Congress project, have taken a look at the budget process from the point of view of the Congress and tried to suggest some changes in that process that might help.

We believe the most important thing is to do whatever you can to encourage long-term political agreements between the President and the Congress and then to build in enforcement procedures that makes it likely that Congress and the executive will stick to those agreements.

That should be the overall goal and objective of changes in the budget process.

Therefore, we endorse the idea of shifting the budget resolution to a biennial resolution, understanding the problems that Bob Reischauer discussed. We think it is important to set basic fiscal policy guidelines once a Congress in the first year as opposed to the second year as identified in the Gore proposal.

We think biennial budget resolutions and biennial reconciliation fit with the long-term multiyear agreements that have been negotiated in recent years.

We also think taking a serious run at deficit reduction every other year is sufficient. I know you feel you've got to go at it every year, but frankly you make more progress when you reach these multiyear agreements with the President and then enforce them.

So having the opportunity to have a go at reconciliation every 2 years, we think, is sufficient.

We also think anything you can do to encourage a further shift back to multiyear authorizations is a good thing. As you know, Congress has moved from open-ended authorizations to multiyear to annual.

We are now moving back. I think we should encourage a further move away from annual authorizations.

We are not Pollyannish about what these changes would accomplish. They are fairly minor changes designed to reinforce what is going on positively right now.

The real issue is whether you also move to biennial appropriations. That is really the guts of the issue here, because I think you could take steps to move the budget resolution to a biennial basis and take steps to encourage multiyear authorizations without running into the political problems of biennial appropriations.

We looked at that issue very hard and, on balance, we recommended against moving to biennial appropriations. We, in the end, decided it was desirable to retain an annual capacity to fine tune government policy in response to changing circumstances, mistakes in writing laws, and even agency failure to carry out legislative intent.

The reality is, congressional oversight is empowered by the power of the purse and we are not persuaded it makes sense to give up that weapon.

At the same time, it is important to understand that that current annual appropriations process provides the opportunity for multiyear forward funding of individual accounts that are technically predictable and politically stable.

That is, in the current context, you could increase the move toward more forward funding that would provide the predictability

that Mr. Panetta and others have argued would be very helpful. In other words, we agree that more management discretion and more flexibility are desirable.

Congress needs to back off a little bit and focus more on performance and less on inputs. There are some good ideas in the Gore report, including the possibility of allowing agencies to roll over 50 percent of the funds they don't spend on internal operations during a fiscal year.

You could also look to see if you can lighten the information and reporting requirements that have so burdened the executive branch.

In other words, if you can trust the executive branch more, I think you would be willing to give them a little more room. My feeling is that you need to focus on those procedures and work out the political agreements, to provide more agency discretion. You are not going to transform the relationship between the branches or ease the problems of budgeting by moving to biennial appropriations.

I think it won't work and it may end up leading Congress to give up some important resources that it ought to retain.

Thank you.

Mr. CONYERS. Thank you very much.

[The prepared statement of Dr. Mann follows:]

Testimony of

Thomas E. Mann

The Brookings Institution

Before the

Subcommittee on Legislation and National Security

Committee on Government Operations

U.S. House of Representatives

October 7, 1993

The subject of this hearing is the recommendation in Vice President Gore's National Performance Review to institute a comprehensive biennial budget cycle and I will offer my assessment of the potential benefits and costs of that proposed change. But before doing so, I want to make clear my support for the overall thrust of the Vice President's report. Government performance is indeed hampered by congressional and administrative micromanagement. The accumulation of rules and regulations restricting the behavior of agency officials, while often individually defensible as legitimate responses to program failures, public concerns, and political disagreements under a divided government, has weakened the capacity of government to serve the public. The return of unified party government provides Congress and the president an opportunity to renegotiate the terms under which agencies operate; the Gore Report is an excellent starting point for that effort.

However, I would be less than candid if I failed to convey my disappointment that biennial budgeting leads the pack of proposals vying for consideration on Capitol Hill. It is not that I am unalterably opposed to the idea and see no promise in it. There are compelling arguments for trying to reduce the time and energy expended in both branches of government on budgetary decisions. But as I will try to make clear below, there is a fundamental distinction between biennial budget resolutions and multi-year authorizations, on the one hand, and biennial appropriations, on the other. Countless hearings and reports on

biennial budgeting over the last fifteen years have made clear that there are also reasons to doubt whether the intended benefits of this reform would be realized.

The fiscalization of policy debate has been a prominent feature of our national politics since the late 1970s. Substantive debates are regularly transformed into budgetary debates; conflict and delay are the norm. The natural temptation is to blame this syndrome on the budget process: budget issues overwhelm the system because of cumbersome, duplicative, time-consuming procedures in both the executive and Congress.

I believe this diagnosis is wrong. Budget deficits, and the lack of consensus among politicians and the public on how to deal with them, are largely responsible for the institutional pathologies identified at both ends of Pennsylvania Avenue. Consequently, there is no guarantee that simplifying the process will produce the desired effects if large budget deficits remain a prominent feature of our public finance. It is worth noting here that some of the states operating with biennial budgeting (e.g. Washington) have seen fiscal stress force them into large-scale budgeting exercises in what are intended to be off years.

This is not to say that process changes are irrelevant. But it is crucial that reforms be crafted with an eye toward the underlying fiscal realities and the politics produced by those fiscal realities. It may well be worth trying to adopt process changes that reinforce and complement such constructive features of the present system as multi-year deficit agreements between



the president and Congress as well as the caps on discretionary spending and the pay/go rules governing mandatory spending and taxes. For example, these changes might profitably include the multi-year performance agreements recommended by the Gore Report. But within the framework provided by these agreements, Congress could still make annual appropriations, though preferably with simplified information and reporting requirements.

The case for biennial budgeting is familiar. Compared with the present system driven by annual budget resolutions, authorizations and appropriations, a comprehensive biennial cycle is seen as encouraging long-term planning and evaluation over incremental budgeting, promoting greater predictability and efficiency in federal programs, eliminating excessive duplication in congressional decision making, reducing the enormous amount of busy work associated with the preparation of annual budgets in the executive branch, and discouraging congressional micromanagement through line items, earmarks, and other restrictions in appropriations bills. Each of these objectives has merit but there is no reason to believe that they would be byproducts of biennial budgeting.

Fiscal pressure and forecasting errors could easily transform mid-cycle adjustments through supplementals into wholesale budgeting exercises. Stepped up congressional oversight could prevent a decrease in agency workloads. Congressional micromanagement might well intensify if members are forced to forego annual appropriation controls.

While I am skeptical of the likely benefits of biennial budgeting, I also see fewer costs than do many opponents of this change in the budget process. A comprehensive biennial cycle would not, in my opinion, lead to a massive diminution in congressional power nor would it seriously weaken the capacity of Congress and the president to respond to new national needs or emergencies or to make midcourse adjustments in budgetary policy. It is true that the power of the purse is the lynchpin of congressional authority and must-pass annual appropriations bills provide an advantage for Congress that would be diminished with a biennial cycle. But I believe Congress would retain substantial tools to influence agency behavior even without an annual appropriations process.

My colleague Norman Ornstein and I, as co-directors of the Renewing Congress Project, have recommended a number of changes in the congressional budget process. One of those entails shifting the budget resolution to a two-year cycle, with basic fiscal policy guidelines set only once per Congress, in its first year. Biennial budget resolutions and reconciliation fit nicely with the discretionary spending caps and pay/go provisions that were a part of the 1990 and 1993 budget acts. Taking a serious run at deficit reduction every two years strikes us as sufficient. We also urge a shift back toward multi-year authorizations. However, we are not pollyannish about the impact of these changes. Setting economic projections thirty-three months as opposed to twenty-one months out will necessitate

frequent adjustments in the numbers, adding to the temptation to manipulate them for partisan or ideological purposes. But on balance, it would create the possibility at least of better time allocation.

The more difficult question is whether to move the appropriations process to a biennial cycle as well. The Renewing Congress Project makes no such recommendation. We believe that it is desirable to retain an annual capacity to fine tune government policy in response to changing circumstances, mistakes in writing laws, and agency failure to carry out legislative intent. In reality most appropriations accounts are not thoroughly reviewed every year; those programs that are technically predictable and politically stable receive *de facto* multi-year funding. It is not obvious that formalizing this pattern would provide any value-added for longterm planning in the agencies. But retaining the capacity to deal with problems and to provide a guaranteed minimum amount of oversight through the annual appropriations process is worthwhile. At the same time, greater flexibility in management could be achieved through other means identified in the Gore Report, including the constructive suggestion that agencies be allowed to roll over 50 percent of what they do not spend on internal operations during a fiscal year.

In sum, I support a biennial budget resolution and multi-year authorizations combined with annual appropriations bills. But I do so fully recognizing that these and other changes in the

process are no panacea and that the difficult problems of budgeting will remain with us for the foreseeable future.

Mr. CONYERS. Now, Dr. Snell, I am anxious to hear your views on the various State budgetary practices or are States going to encourage the Federal Government to adopt a biennial budget cycle, because the States need to have more certainty in the way they receive Federal funding?

**STATEMENT OF RONALD K. SNELL, DIRECTOR, NATIONAL CONFERENCE OF STATE LEGISLATURES' FISCAL AFFAIRS PROGRAMS**

Dr. SNELL. Well, thank you for your direction, Mr. Chairman. I certainly wouldn't want to disappoint you, but I think I would summarize my testimony by saying that State experience confirms everything that you have heard here today, both for and against biennial budgeting.

May I say at the outset how gratified I am that NCSL was asked to provide someone to testify here today on a subject that we see as most important and how gratifying it is to see the Federal budget process being subjected to a searching reexamination.

Another point I think that can be made from State experience is the examination of the process is as important as any particular changes that may come out of it. The examination of the process is bound to improve the process.

On the point of State experience with biennial budgeting and what State experience may say about the pros and cons of biennial budgeting, I will summarize my written testimony very quickly, Mr. Chairman, with your permission, and make a few general comments.

The trend among States over the past 50 years has been to move away from biennial budgeting and probably the chief cause for that has been that in the same 50 years the States have moved from biennial legislative sessions to annual sessions.

In 1940, there were only four States that had annual legislative sessions. Obviously annual budgeting was an impossibility for most States. As State legislatures have become more prominent in setting policy, more activist generally, they have, along the way, moved to annual budgeting, and now there are only 19 States that still practice biennial budgeting.

But as your own General Accounting Office pointed out, a few years ago, our count of 19 overestimates the amount of biennial budgeting that actually goes on because about half of those States revisit their budgets before the second year of the biennium begins.

What they do to the budget depends on economic conditions. It depends on what changes there have been in Federal policy toward the States and to some extent depends upon politics.

They revisit them to a greater or lesser extent, but the practice of reopening the budget in biennial States is very widespread. So that one of the points of State experience is that it doesn't bear out the frequent contention that biennial budgeting in and of itself saves time or allows time for program evaluation.

The key element there, in the State experience at least, is how predictable the economy has been and how stable politics have been, whether the decisions made a year ago still seem good a year later.



Beyond that point, it is difficult to say that States' biennial budgeting practices have much in common as far as their budgets go, or that States with annual budgeting have much in common. There doesn't appear to be a clear relationship between the amount of executive control a Governor has over the execution of a budget and what his State's budgeting cycle is.

Some States with annual budgets allow Governors a great deal of discretion to cut the budget, to move money around. Some States with biennial budgets do the same thing, and some don't. There is no clear correlation there.

It is not clear from State experience that those States with biennial budgets take advantage of the opportunity to do more long-term planning—or that the legislatures take advantage of the opportunity to do more long-term planning and program review than they do in other States.

That, again, appears to be a matter of the imperatives of a given legislature at a given time.

As far as response to changing events, obviously of concern in much of the testimony here this morning, both in States with annual budgets and those with biennial budgets, mechanisms have been developed over time to deal with the unforeseen, which is perhaps one of the few constants in politics.

Either kind of State has a range of constitutional and statutory provisions that allow for adapting to changes in Federal provisions, changes in Federal aid, changes in revenue that were unforeseen. Some States give Governors a great deal of authority to do this. The State of Texas has a legislative budgeting board made up of executive and legislative members who have about as much power over the budget in the interim as the legislature has during session. South Carolina, of course, has had a similar board in the recent past.

And then when these standing provisions are inadequate, it is common for States to call special legislative sessions to deal with emergencies. In recent years, because of the fluctuations of the economy, special sessions have been especially numerous. Thirty-one States held more than 50 special sessions in 1991 alone, not all of them having to deal directly with the budget, but probably, without making a careful count, I would say it is safe to say more than half of those dealt with revision of the budget.

In States with biennial budgets, when the economy doesn't perform as expected, as has been the case in the last few years, as you know, supplemental appropriations are more common, and in years when the economy does perform as expected, they are less common.

The important point I think is that that is the case for States with annual and biennial budgets alike, and that is the case as well for special sessions of the legislature.

The conclusion I draw from all of this is that in the State's experience, annual budgeting and biennial budgeting work equally well. They work best when revenues are certain, when social service program caseloads are predictable, and none of that I think would come as a surprise.

When there are few surprises out there for you, you can plan ahead successfully. If you live in a time of rapidly changing events,

it is less likely that your plans are going to be realized by the events you are predicting.

In closing, I would say I think that there are two elements in the State process that are probably of more significance in making the budget process work smoothly than the cycle of the budget.

One of them is that the State budget process is controlled from beginning to end by the political commitment in the States to balancing the operating budget, and that provides a frame of mind, that provides limits on what can be done that controls that process.

To that extent, I think the different responsibilities of Congress from the responsibilities of State legislatures make the legislative experience less than relevant to you. The responsibilities are different. What works with the State legislature would not necessarily work with Congress.

The second point is that State budgets' success is largely a matter of whether the economy is stable and predictable or not.

Thank you very much, Mr. Chairman.

[The prepared statement of Dr. Snell follows:]



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**ANNUAL AND BIENNIAL BUDGETING:  
THE EXPERIENCE OF STATE GOVERNMENTS**

**Presentation to the  
Legislation and National Security Subcommittee  
Committee on Government Operations  
U.S. House of Representatives**

**by Ronald K. Snell, Fiscal Program Director  
National Conference of State Legislatures**

**October 7, 1993**

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## ANNUAL AND BIENNIAL BUDGETING: THE EXPERIENCE OF STATE GOVERNMENTS

My name is Ron Snell. I appear before you today as the Fiscal Program Director for the National Conference of State Legislatures (NCSL). NCSL represents the nation's 7,481 state legislators as well as lawmakers in U.S. territories, the Commonwealth of Puerto Rico and the District of Columbia.

I am pleased to have this opportunity to add information from state experiences with annual and biennial budgeting to the Congressional review of the budgeting timetable for the federal government.

The trend among state governments for the past 50 years has been to abandon biennial budgeting for annual budgeting. Forty-four states practiced biennial budgeting in 1940. Only 19 do so now, and at least half of them carry out a thorough review of their budgets before the second year of the biennium begins.

There have been several reasons for the shift to annual budgeting, but in general the shift has been part of the resurgence of state legislative power since the middle of the century. In 1940 only four state legislatures held annual sessions; now 43 do so. Annual sessions make annual budgeting possible, but also reflect the growing activism of state government. Some states shifted to annual budgets in the 1970s to provide a quicker response to the rapidly expanding federal domestic spending of the period. Another reason has been to allow budget revisions in the face of fluctuating revenues as states have become more dependent on revenue from income taxes.

State changes have not moved in only one direction, however. Connecticut, for example, in 1991 returned to biennial budgeting, reversing the decision it made to go to annual budgeting when the state shifted to annual legislative sessions in 1971. A few states have moved from annual to biennial budgeting over the past 20 years or have changed back and forth, in some cases as a byproduct of party politics, but in other cases from uncertainty as to which worked better. As this testimony will show, state experience does not make a clear case for the superiority of either biennial or annual budgeting over the other.

We have been asked to comment on each of the issues listed below. The comments that follow do not constitute a formal policy statement of the Conference, which has not adopted policy on this issue.

1. The budgeting practices of the various states, including trends toward and away from biennial budgeting.
2. Significant differences or variations among the states utilizing a biennial budget process.
3. Advantages and disadvantages of a biennial budget cycle for states and the applicability of those advantages and disadvantages to the federal government.

4. The consequences of a biennial budget cycle for predictability and planning certainty for executive branch agencies and legislative committees.
5. The ability of governors and legislatures to respond to changing events and changing budget priorities.
6. The likelihood and consequences of increasing reliance upon supplemental appropriations in a biennial budget cycle.

1. *The budgeting practices of the various states, including trends toward and away from biennial budgeting.*

Annual budgeting is more common among the states than biennial budgeting; 31 states have annual budgets and 19 enact biennial budgets, most of them in the form of two annual budgets enacted at once (see table 1). Because the *appropriations* (as opposed to the budget) are made for a specific fiscal year in almost every case, and because 12 of the states with biennial budgets have annual sessions in which they can and do revisit the budget, table 1 may overstate the extent of true biennial budgeting. The extent to which budgets are actually revised for the second year of a biennium varies from state to state and from time to time. Economic conditions are an important consideration.

As already noted, the long term trend has been for states to move to annual budgeting. Population growth seems to have affected the process. In 1993, only three of the 10 largest states--North Carolina, Ohio, and Texas--have biennial budgets. Among them, Texas alone has regular biennial sessions of the legislature.



TABLE 1. ANNUAL AND BIENNIAL BUDGETING STATES IN 1993  
(**Boldface** indicates the 10 most populous states)

ANNUAL SESSION ANNUAL BUDGET (31 states)	ANNUAL SESSION BIENNIAL BUDGET (12 states)	BIENNIAL SESSION BIENNIAL BUDGET (7 states)
Alabama	Connecticut	Arkansas
Alaska	Hawaii	Kentucky
Arizona	Maine	Montana
<b>California</b>	Minnesota	Nevada
Colorado	Nebraska	North Dakota
Delaware	New Hampshire	Oregon
<b>Florida</b>	North Carolina	Texas
Georgia	Ohio	
Idaho	Virginia	
Illinois	Washington	
Indiana	Wisconsin	
Iowa	Wyoming	
Kansas		
Louisiana		
Maryland		
Massachusetts		
<b>Michigan</b>		
Mississippi		
Missouri		
<b>New Jersey</b>		
New Mexico		
<b>New York</b>		
Oklahoma		
<b>Pennsylvania</b>		
Rhode Island		
South Carolina		
South Dakota		
Tennessee		
Utah		
Vermont		
West Virginia		

2. *Significant differences or variations among the states utilizing a biennial budget process.*

Biennial budgets do not seem to cause significant differences in budgeting practices among the states that have them, although state practices vary so widely for reasons of politics and history that it is difficult to single out any one reason for differences in practice. Moreover, the use of biennial budgets does not appear to cause differences that one might expect to exist between states with annual and biennial budgets.

The major difference among states with biennial budgets is that 12 have annual legislative sessions and seven have biennial sessions. States in both categories range in population and budgets from very large to small. Those with annual legislative sessions range in size from Wyoming to North Carolina, and those with biennial regular sessions range in size from Montana to Texas. Aside from the fact that no state in the northeastern quadrant of the 48 states still has biennial legislative sessions, there are no significant geographic or regional links among these states.

There does not appear to be any relationship between state budget and legislative cycles and the formal powers governors have to administer budgets (budget cuts and transfers between agencies or programs). A governor's power to reduce budgets or make transfers varies greatly from state to state, but it does not appear to be consistently greater in states with biennial budgets or legislative sessions than in other states.

Arkansas, for example, which has a biennial legislature and budget, imposes strict limits on the governor's power to transfer funds among programs in an agency appropriation, denies the power to transfer funds among agencies, and limits the governor's power to cut the budget with provisions that are enacted in the budget itself. Despite the biennial legislative sessions, the legislature preserves a significant amount of control over changes in the budget when it is not in session. This is no different in its effect from the practice in the annual-budget state of Tennessee, where the constitution encourages the governor to call a special session of the legislature if budget cuts are needed, and where transfers are similarly limited.

Some states with annual legislatures and budgets provide governors with remarkably broad administrative authority over the budget. Iowa, Indiana, South Carolina, and South Dakota allow their governors unlimited power to transfer funds among state agencies. Ten of the states with annual legislative sessions allow their governors to reduce budgets by unlimited amounts to cope with revenue shortfalls. Thus the budget cycle in itself does not appear either to create a need for strong executive budget review powers or to prevent the need for them.

3. *Advantages and disadvantages of a biennial budget cycle for states and the applicability of those advantages and disadvantages to the federal government.*

There is little evidence of clear advantages of either annual or biennial state budgeting practices. These are the findings of two major studies:

"In reality, a State can develop a good system of executive and legislative fiscal and program planning and controls under either an annual or biennial budget. The system would work differently with the alternative timespans, but could be effective under either approach."<sup>1</sup>

"The arguments used to justify and refute both annual and biennial budgets remain essentially unchanged [since 1972]--and unproven. The success of a budget cycle seems to depend on the commitment of state officials to good implementation rather than on the method itself."<sup>2</sup>

Major advantages of biennial budgeting are said to be that it is conducive to long-term planning; that it allows more time for program review and evaluation; and that the process itself is less expensive and time-consuming than that of annual budgeting.

*Long-term planning.* Evidence from states which have changed from annual to biennial budgeting over the past 30 years fails to provide strong support for the contention that biennial budgeting is conducive to long-term planning. The Council of State Governments' 1972 study of eight states produced such conflicting evidence that it could neither confirm nor reject the idea. An in-depth study of five states carried out by faculty of Texas A&M University in 1984 was also inconclusive on the point, as is the study done by the General Accounting Office in 1987.<sup>3</sup>

*Program Review and Evaluation.* An attractive argument for biennial budgeting is that it allows more time for performance evaluation, and thus can encourage administrators and legislators to move in the direction of outcome-focused budgeting rather than continue to focus on budget controls. This was one of the principal arguments that led Connecticut to return to biennial budgeting. Proponents contended that, "The present system (of annual budgeting) does not allow enough time to review expenditures in depth. Those preparing the budget finish one year and then immediately plunge into the next year's budget."<sup>4</sup>

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1. Council of State Governments, *Annual or Biennial Budgets?* (Lexington, Ken., 1972), 23.
  2. Public Affairs Research Council of Louisiana, "Results of PAR Survey on Annual vs. Biennial State Budgeting" (Baton Rouge, La., 1982).
  3. Charles W. Wiggins and Keith E. Hamm, "Annual Versus Biennial Budgeting?" *Public Policy Paper No. 7* (Austin, Texas: Public Policy Resources Laboratory, Texas A&M University, 1984), III-15; United States General Accounting Office, *Budget Issues: Current Status and Recent Trends of State Biennial and Annual Budgeting* (Washington, D.C., 1987).
  4. [Connecticut] Commission to Study the Management of State Government. *Final Implementation Report* (Hartford, Conn., 1991).

Since Connecticut is now beginning the second year of its first biennial budget since the change was made, not enough time has elapsed to show how this will work out. Too few states have changed from annual to biennial budgeting to provide sufficient evidence from experience. What evidence there is suggests that the opportunity for performance review is somewhat greater in states with biennial budgeting.

*Budgeting costs.* Biennial budgeting is likely to reduce executive branch costs of preparing budgets, since the process is consolidated in comparison with annual budgeting. State experience appears to bear this out, according to the studies cited in the notes on the previous page.

4. *The consequences of a biennial budget cycle for predictability and planning certainty for executive branch agencies and legislative committees.*

It is obviously more difficult to project revenues and expenditures accurately for a biennium (requiring forecasts of events 30 months away) than for an annual budget (requiring forecasts for 18 months). Accurate forecasting is essential for state governments, all of which focus their budget process on balancing resources and spending.<sup>5</sup> As one would expect, the consensus is that forecasting is more accurate in states with annual budgets. Accuracy in forecasting, in turn, reduces the need for special sessions of the legislature and for supplemental appropriations.

Biennial budgeting represents a commitment of policy direction and funding amounts for a longer period than annual budgeting; it also means that agency personnel have to spend less time in budget planning and presentations than under a system of annual budgeting. Does this mean more predictability and certainty of planning for them and for legislative committees, in matters other than total revenue and expenditure forecasts? The answer to that question is generally yes, but the increase in the certainty of policy and funding commitment may in fact be small.

State governments tend to budget incrementally, which means in effect that budgeting for the coming period, whether annual or biennial, begins with the current level of expenditures and tends to divide up any additional resources largely in proportion to the size of program budgets in the past. In the absence of dramatic economic change, state budgets rarely impose dramatic changes in agency budgets.

Predictability tends to continue under both kinds of budgeting cycles because state budgeting is incremental in nature. Between 60 percent and 70 percent of most states' general fund appropriations are for elementary, secondary and higher education, health care programs, other entitlement programs, and corrections. Such programs are not susceptible to sweeping changes in funding levels or program redesign. Predictability and stability characterize them regardless of the budget cycle.

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5. Forty-nine states have statutory or constitutional requirements for a balanced budget; Vermont is the exception. In most states the requirement includes all state spending, but it invariably applies to appropriations from the state general fund.

Economic cycles can make state budgets uncertain and unstable. States rely on sales and income taxes, which are very sensitive to the health of the economy. The boom of the 1980s affected annual and biennial states alike: they prospered and expanded their budgets. The recession of 1990 and the slow recovery have had unsettling effects on states regardless of the length of their budget cycles. The health of the national economy probably has more to do with predictability and planning certainty than does the length of a state's budget cycle.

5. *The ability of governors and legislatures to respond to changing events and changing budget priorities.*

State governments have developed mechanisms to deal with unexpected fiscal and policy events--constitutional and statutory provisions to allow for transfers of revenue among programs with departments, rainy day funds, the reduction of expenditures when legislatures are not in session, and the use of unanticipated grants from the federal government. The National Conference of State Legislatures recently published a study of the solutions states have found to such problems.<sup>6</sup> I have discussed some of them already in making the point that there does not appear to be greater executive authority over state budget administration in states with biennial budgets than in states with annual budgets.

State balanced-budget requirements require prompt action when revenues fall short of projections. Fifteen states give their governors full authority to cut the budget when there is a revenue shortfall. Very few prohibit the governor from making any spending cuts. California, which has a full-time legislature, prohibits them but that is exceptional.

Most states take a middle way. They give the governor limited authority to make cuts and require legislative participation when the limit of gubernatorial authority is inadequate. Maryland, for example, allows the governor to cut any line-item appropriation by as much as 25 percent. Connecticut and Kentucky limit such cuts to 5 percent. In Oklahoma, the governor's cuts must affect all appropriations equally, meaning that elementary education funding must be cut along with programs where cuts would produce less of a public outcry. This provision tends to bring the legislature into the picture when cuts have to be made.

When constitutional and statutory provisions do not cover a problem, a special legislative session is necessary. Budget problems, reapportionment issues, and in some states education reform have made special sessions frequent in the early 1990s. More than 50 special sessions were held in 31 states in 1991. The school funding reform issue in Texas required three special sessions in 1989 and four in 1990. With the exception of Texas, however, states with biennial legislatures appear to have had no more special sessions than states with annual, part-time legislatures in the four years beginning with 1988 and ending in 1991.<sup>7</sup>

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6. Corina L. Eckl, *Legislative Authority over the Enacted Budget*, (Denver, Colo.: National Conference of State Legislatures, 1992), Tables 5, 6, and 7.

7. Council of State Governments, *Book of the States, 1990-91*, Table 3.22; *Book of the States, 1992-93*, Table 3.25 (Lexington, Ken., 1990, 1992).



6. *The likelihood and consequences of increasing reliance upon supplemental appropriations in a biennial budget cycle.*

According to older studies of state decisions to shift to annual budgeting from biennial budgeting, supplemental appropriations became less common after the shift. But in recent years supplemental appropriations have been common in all states--not just those with biennial budgets--because of the unpredictable changes in the national economy.

Since 1989, many state budgets have been hit by revenue shortfalls and expenditure overruns. The former have tended to occur in the three largest state tax sources--the general sales tax, personal income taxes, and corporate income taxes. Since these three tax sources produce 70 percent of state tax revenue, even a small error of estimate can create a significant dollar shortfall. Overruns have occurred largely in Medicaid programs, to a less extent in other entitlement programs, and to a small extent in elementary education and corrections. The entitlement program errors of estimate were in part due to the economy.

Annual legislative sessions and annual budgets provide for reasonably timely responses to such issues and insure that requests for supplemental appropriations will be reviewed in the context of the entire state budget. States where annual legislative sessions review biennial budgets for the off year also can put supplemental requests into perspective. In either case, consideration of supplemental budgets is often as difficult and time-consuming as consideration of an original departmental budget, and, by focusing attention on a few agencies, is likely to bring their entire budgets back into the political arena.

Mr. CONYERS. Well, gentlemen, we thank you for your testimony and I would like to ask Bill Clinger and Mr. Spratt, are you going to—do you choose to have any questions for the witness?

Mr. SPRATT. Except to thank them both for coming here. I really think we have had a very balanced hearing. I thank you both.

Mr. CONYERS. All right.

Mr. Clinger.

Mr. CLINGER. Thanks, Mr. Chairman.

Just a couple of questions. One to Dr. Mann. One of the concerns that has been expressed up here with regard to a biennial budget by some of the, I don't know what you call them, old bulls or young turks, whatever, but some of our Members have felt that there would be a dramatic shift of power resulting from this from the—going from the congressional branch to the executive branch.

You don't seem to feel that that would be a problem. You see other problems, but you don't see that as a problem.

Dr. MANN. That is correct. I think that there would be some shift in power. Having the requirement that appropriations bills must pass each year gives the Congress an advantage over the President, who can't simply live without them. Under a biennial system, supplementals could conceivably be vetoed by the President with no need of having any substitute for them.

But my view is that Congress would retain sufficient resources to make its will felt in the executive branch even under a system of biennial appropriations. I think something would be lost in the process, but not substantial congressional power.

Mr. CLINGER. Dr. Snell, you note the shift or the trend of States going from biennial to an annual budget. If the Federal Government were to—I would think part of that might be driven because of the nexus between the Federal and State—you know, there is a connection there, and therefore if the Federal Government is operating on an annual—budget annual appropriation process, it would make sense I think for the States to move in that direction.

Wouldn't it also be true that if the Federal Government went to a biennial budgeting process, that that—wouldn't States maybe perhaps follow that example at that point and go the other way?

Dr. SNELL. That might well be true just for reasons of planning and because there often is discussion in States of shifting their fiscal year to match the Federal fiscal year again or the advantages of comparability.

Mr. CLINGER. Wouldn't there be—I mean, you cited earlier, it seemed to me, that the States would welcome having a little more assurance over a 2-year cycle of what they could count on in terms of resources from the Federal Government than just 1 year.

I mean, doesn't that give you a little longer planning cycle?

Dr. SNELL. It gives you a longer planning cycle, and I certainly would agree with you, sir. I think that the States would welcome assurance of longer term commitments from the Federal Government.

Mr. CLINGER. Gentlemen, I thank you both very much for—thank you, Mr. Chairman.

Mr. CONYERS. You are welcome, Mr. Clinger.

What this hearing has done for me is to realize that even the things that appear easy are not as simple as they appear.

What we have done now is take the National Performance Review and one of the first things out of the box is to say it probably won't make that much difference anyway. If you really feel that your life would be better if you did this, go ahead and do it, but it is really not going to make that much difference.

That is what I estimate to be the sum of the bulk of the testimony here this morning and this afternoon.

You know, if that is the case, then what does the administration and the Director of OMB not understand about this problem? If it is not that critical, then where are we? It suggests that there are other things that are far more important, and I suppose we will have to get on to them, but I think that the administration is going to have to respond. I am going to ask the Director of OMB, who is in effect representing the administration, to carefully scrutinize the major points, made here today, that suggest caution in moving forward and consider where we can come to some agreement so that we can all move forward together.

I don't see any real merit in sending a widely contested issue forward to the Congress on an administrative policy like this if there isn't support among the experts and the scholars in the field.

So this hearing has been very helpful to me because it requires now that I critically revisit some of the arguments against it that we haven't considered before.

For that reason, Dr. Mann, we thank you for appearing before the subcommittee today. The Brookings Institution has helped us along in a wide variety of policy areas and we are delighted to have your testimony. Dr. Snell, the experience of the States is helpful in illustrating the diverse budget practices of the States and potential problems regarding implementation. Additionally, the experience of the States are of course critical since our relation with them is actually more intimate than ever, and it looks like the Federal/State connection will probably get larger before it gets smaller. We are grateful to you too, Dr. Snell.

Thank you both very, very much. The committee stands adjourned.

[Whereupon, at 12:35 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

# APPENDIX

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## MATERIAL SUBMITTED FOR THE HEARING RECORD



**TESTIMONY OF ROBERT GREENSTEIN**  
**Director, Center on Budget and Policy Priorities**  
**before the**  
**Committee on Government Operations**  
**Subcommittee on Legislation and National Security**

**October 7, 1993**

The National Performance Review recommends switching from annual budgeting to biennial budgeting for all appropriated accounts. It suggests amending the Congressional Budget Act of 1974 and the Budget Enforcement Act to switch to a biennial cycle.

At first blush, biennial budgeting sounds like an attractive idea, but upon closer examination, I believe the disadvantages outweigh the advantages. Biennial budgeting could have a number of adverse, if unintended, effects. It's worth noting that most large states have abandoned biennial budgeting and switched to annual budgeting, as their responsibilities have grown. Some 44 states had biennial budgeting in 1940, but only 20 do today, and most of those are small or medium-size states.

If there is a desire to pursue biennial budgeting, it should first be done on an experimental basis, involving a limited number of accounts. A decision to convert the entire federal government to biennial budgeting would be unwise and premature unless a test of this approach demonstrates that the serious questions regarding biennial budget can be addressed.

Let me state at the outset that my concerns about biennial budgeting have nothing to do with Congressional turf issues or the prerogatives of the Appropriations Committees. They relate to the question of what will provide us with a budget process yielding the wisest and soundest decisions.

### **Reordering National Priorities**

Biennial budgeting is likely to hinder congressional efforts to reorder spending priorities. The federal government needs both to reduce the deficit, remaining within tight spending caps, and to invest more in certain high priority areas where prudent investment can improve prospects for long-term growth. Achieving both of these goals entails shifting budget priorities, keeping defense spending on the downward

path proposed by the Clinton administration and reducing funding for numerous low-priority domestic programs while increasing the resources allocated to high priority investments.

To secure such shifts in priorities often involves challenging the status quo and taking on strong constituencies that protect many low priority programs. Because of resistance to such shifts in priorities, these funding shifts tend to occur incrementally; each year, appropriation levels for defense and lower-priority domestic programs can be nudged down somewhat, while key investments can be ratcheted up somewhat. In recent years, for example, funding for the Pentagon and lower-priority programs such as Amtrak have frequently been reduced, while programs such as Head Start and WIC have received increases each year.

If appropriations decisions are made only once every two years, however, the process of reordering budget priorities is likely to proceed more slowly. Defense spending proponents in Congress will argue that the future is uncertain and the nation cannot risk being caught unprepared by reducing defense funding for the second year of the budget cycle, a year that will seem a long way off. Appropriating for defense for one year at a time rather than two years at a time reduces this uncertainty and is likely to allow defense reductions to adhere more closely to the path President Clinton proposed. Biennial budgeting thus could weaken rather than strengthen efforts to change the status quo in allocating limited resources.

There also is serious question about the wisdom of making budget decisions only in election years, as the National Performance Review report appears to recommend in its section on biennial budgeting. That is not the best way to secure tough decisions that reorder priorities.

Nor is this problem easily addressed by doing biennial budgeting in odd-numbered years. That would require a President who is just taking office and bringing in a new team to prepare a two-year budget in his or her first weeks in office. Moreover, when the President gets his or her new team in place, he or she would be denied the ability to do another budget until the third year in office. This is not the best way for a new administration to develop or implement its program.

### **Decreasing the Government's Ability to Respond to Emerging Problems**

Federal agencies typically begin working no later than June (and usually earlier than that) on the budget to be submitted the following January. Under biennial budgeting, that budget would cover a two-year period starting the October after the budget was submitted. This means that in preparing two-year budgets, agencies would be working on a budget for a fiscal year — the second year of the



two-year cycle — that would not start until at least 28 months later and not end until at least 40 months later.

The key decisions on the President's budget are usually made at OMB and the White House in November and December. These decisions would come 22 to 23 months before the beginning — and 34 to 35 months before the end — of the second year of the biennial cycle.

Such long lead-times would result in a number of decisions that became outdated. Some decisions would be made to fund programs that are subsequently found to be less effective than thought (or more so). As a consequence, the statement in the National Performance Review that biennial budgeting would help address the problem of agency officials basing their budgets on what they received before — and not on the results the programs produced — is off-base. Biennial budgeting would be likely to exacerbate this problem rather than ease it.

Moreover, once the President's budget is public, it is much more difficult for the President to alter his position. And once funds have been appropriated for a program, it becomes more difficult to revisit that decision and shift funds elsewhere. This makes it more difficult to make the best decisions for the second year of the cycle.

In addition, biennial budgeting would make it more difficult for the President and Congress to respond expeditiously to new issues as they arise. Problems such as an increase in AIDS cases or a rise in drug trafficking might arise and necessitate a response. Similarly, changes in the economy, such as an increased level of

### Preparing the Budget Too Far in Advance

While recommending biennial budgeting, the National Performance Review also laments the fact that budgets now must be prepared so far in advance. "Early in the year," the Review states, "each agency estimates what it will need to run its programs in the fiscal year that begins *almost 2 years later*. This is like asking someone to figure out not only what they will be doing, but *how much it will cost 3 years later* — since that's when the money will be spent. Bureau and program managers typically examine the previous year's activity data and project the figures 3 years out..."<sup>1</sup>

Biennial budgeting would, of course, aggravate this problem. Budgets for the second year of the two-year cycle would be prepared a year even farther in advance.

<sup>1</sup> *Creating a Government that Works Better and Costs Less*, Report of the National Performance Review, Sept. 9, 1993, p. 15.

unemployment, also might require a timely response. Two-year budgeting compels the President and Congress either to delay addressing such problems for an additional year or to seek to address them through *ad hoc* procedures outside the budget, which can be messy.

### **Biennial Budgeting Doesn't Fit Well With the Discretionary Caps and Entitlement Targets**

Under the Budget Enforcement Act of 1990 and the new reconciliation law enacted this summer, binding annual caps are set on discretionary appropriations and outlays. In addition, an Executive Order issued by President Clinton in early August established annual entitlement targets. The Administration also has proposed planning annual caps on Medicare and Medicaid as part of its health care plan.

The exact levels of the entitlement targets and the discretionary caps are not known in advance. The entitlement targets and the discretionary caps for each fiscal year are adjusted each January. Thus, the caps and the entitlement target for fiscal year 1995 will be adjusted in January 1994. The entitlement targets are adjusted each year to reflect increases in the caseloads of entitlement programs from what had been predicted earlier. The discretionary caps are adjusted to reflect any change in the inflation rate from what was forecast when the caps were previously set.

In some years, biennial budgeting is likely to result in the budget for the second year of a two-year cycle breaching the entitlement target and/or the discretionary caps for that year. (On other occasions, the budget for the second year of the cycle will come in below the discretionary caps.) These discrepancies are likely to lead to a stream of budget adjustments in the second year of the biennial cycle, necessitating a Presidential proposal for budget revisions and Congressional action on them. Congress often will not have a "year off" from budgeting, anyway.

### **Biennial Budgets Will Have To Be Revised**

As these points about emerging needs, changes in the economy, and adjustments in the caps suggest, biennial budgeting is unlikely to work in the real world in the way it is pictured on paper. The pressures to revise the budget within the two-year period will often be strong, leading to budget revisions and supplemental bills.

Budget revisions and supplementals often involve less rigorous Congressional analysis of the larger budget picture than does the current annual budget process. The revisions that will occur under a biennial budgeting process may, in the end, result in nearly as much budgeting activity as under the current annual budget process, but with some of the budget revisions being conducted in a less coherent and organized manner. Moreover, because such budget revisions will inevitably

occur, the reductions in agency staffing from moving to biennial budgeting will likely be modest.

### **Will Biennial Budgeting Improve Congressional Operations?**

One argument made on behalf of biennial budgeting is that it will improve Congressional operations, giving Congress more time for oversight. This argument is overstated. Congress contains separate authorizing and appropriating committees, and the budgeting work of the appropriations committees generally does not interfere with the oversight work of the authorizing committees. The notion that biennial budgeting will make significantly more time available for oversight and other authorizing functions is questionable.

The budget process consumes significant authorizing committee time only in years in which the reconciliation process is used. This does not occur every year. Moreover, the reconciliation process tends to be used when political forces enable a significant deficit reduction step to be taken. Using biennial budgeting may mean that some opportunities for a reconciliation bill — and for deficit reduction — are foregone.

Some may argue that biennial budgeting will save time consumed by the appropriations process. The annual appropriations bills do not, however, consume much floor time in the House or Senate.

### **Will Biennial Budgeting Improve Program Planning?**

Another argument sometimes made for biennial budgeting is that it will provide greater certainty for — and thus better planning by — federal agencies and state and local governments. Many of the programs for which certainty and advance planning are most important, however — such as most education programs — already are "forward-funded" (that is, funded a year in advance). This provides for certainty and advance planning. If it is desirable to expand the list of forward-funded programs, the President can request this. But this does not require moving the entire federal budget to biennial budgeting.

### **Will Biennial Budgeting Reduce Year-End Gimmicks?**

In a recent *Washington Post* article, a National Performance Review official advanced still another argument — that biennial budgeting would discourage year-end budget gimmicks that cause unwise use of funds. The year-end gimmicks result not from annual budgeting, however, but from the "use it or lose it" rules that now prevail in many appropriations accounts. The National Performance Review recommends that agencies be allowed to retain and carry forward into the next fiscal year half of the funds they save. This recommendation should address the problem

of year-end spending splurges. Biennial budgeting is not needed to tackle this matter.

### State Actions to Drop Biennial Budgeting

States are often referred to as "laboratories of democracy," and their lessons studied for clues to improving federal government performance. But while the National Performance Review cites state experience in using biennial budgeting, it does not fully describe state experience in this area. States have a clear pattern of abandoning biennial budgeting and moving to annual budgeting, rather than moving in the other direction.

As then-Senator Lawton Chiles noted in 1988, some 44 states used biennial budgeting in 1940, but today, fewer than half that number — 20 — do. Most of the states using biennial budgeting are small or medium-sized states. And in 11 of these states, either the state constitution or tradition provides for annual reviews of the budget so that the difference between a biennial and an annual procedure sometimes becomes less distinct.

The experience of the large states is essentially one of having tried biennial budgeting and dropped it in favor of annual budgeting. We should learn from this experience. It raises questions about whether biennial budgeting is appropriate for an entity with the domestic and international responsibilities of the U.S. government.

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The disadvantages of biennial budgeting appear to outweigh the advantages. In addition, savings in agency staffing from biennial budgeting are likely to be modest. The important decision on whether to move to biennial budgeting should not turn on staffing economies that are not likely to be very noticeable in the context of overall federal staffing and operating costs. Larger issues are at stake.

The potential drawbacks of biennial budgeting are sufficiently serious that if there is a desire to pursue biennial budgeting, it should first be done on an experimental basis, involving a limited number of accounts. It may be useful to experiment with biennial budgeting. But a decision to switch the entire federal government to biennial budgeting would be unwise and premature unless a test of this approach demonstrates that the serious questions surrounding biennial budgeting can be satisfactorily addressed.





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